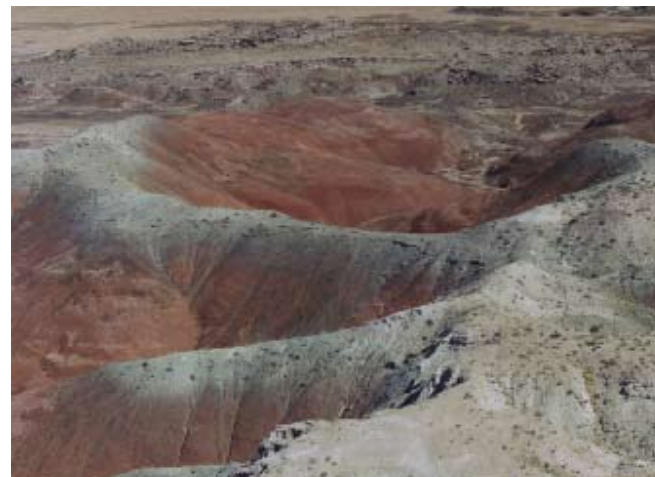


Elected Officials' Retirement Plan



26th COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



For the Fiscal Year ended June 30, 2007

Our Vision, Mission & Values

Vision

Invest, secure and manage responsibly the retirement funds of its members in accordance with all legal, investment and financial requirements and in a manner consistent with the quality to which its members have become accustomed.

Mission

- To be a low cost, highly personalized quality service provider of funds management and benefit services
- To manage long-term investments with the goal of consistently outperforming over time the composite weighted market return benchmark net of all investment-related costs so as to assure the financial integrity of the funds and the security of the benefits these funds provide

Values

- Do what's best for our members and financial health and integrity of the System
- Proactive
- Committed to high quality, uniform, sustainable service
- Innovative and cost effective in Plan administration and services
- Use best practices in Human Resource management

Elected Officials' Retirement Plan

A Pension Trust Fund of the State of Arizona

Twenty-Sixth Comprehensive Annual Financial Report

**For the Fiscal Year Ended
June 30, 2007**

Prepared by the Staff of PSPRS

Public Safety Personnel Retirement System
3010 E Camelback Road, Suite 200
Phoenix, Arizona 85016
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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Elected Officials' Retirement Plan, Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Fund Manager Report

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM CORRECTIONS OFFICER RETIREMENT PLAN

ELECTED OFFICIALS' RETIREMENT PLAN

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James Gentner

Fund Manager Advisor

James M Hacking

Administrator

Ryan Parham

Interim CIO

Tracey D. Peterson

Assistant Administrator-COO

February 8, 2008

The Honorable Janet Napolitano
Governor of the State of Arizona
State Capitol
Phoenix, Arizona 85007

Dear Governor Napolitano:

The Fund Manager of the Public Safety Personnel Retirement System (PSPRS) respectfully submits the Twenty-Sixth Comprehensive Annual Financial Report (CAFR) for the Elected Officials Retirement Plan (EORP) for the fiscal year ended June 30, 2007 (FY'07), in accordance with the provisions of A.R.S. Section 38-803.

The EORP's Funding Ratio

As of fiscal year-end, we must report that the financial status of the EORP, as reflected in its funding ratio, has declined significantly relative to what it was one year earlier. At June 30, 2006, that funding ratio was 89.9%; at June 30, 2007, it was down to 74.6%. But before summarizing the Plan's fiscal year-end funding situation and the factors that occurred during the fiscal year that led to the year-end results, we must first provide some historical perspective.

As you recall, during the 1990s, PSPRS annually generated investment returns well in excess of the System's actuarially assumed rate of 9%. As a result, throughout the decade and through FY'04, the EORP was more than 100% funded. It appeared that all was well. In reality, however, that was not the case. The financial health of the Plan was predicated on an investment strategy that entailed an extraordinary degree of risk.

During the last half of the 1990's, the Plan's portfolios were increasingly concentrated and invested in "high tech" securities. But in March, 2000, the "tech" bubble began to deflate. From June 30, 2000 to June 30, 2002, the asset value of the EORP declined from \$355.3 million to \$242.2 million – an asset value loss of over 31.8%. Even as of June 30, 2007, with the EORP's market value of asset at \$339 million, the Plan has still not fully recovered its asset value loss. To make matters worse, from June 30, 2000 through June 30, 2007, the liability for present and promised future benefits has increased 78.0%.

Since the System uses a seven year averaging process to determine its fiscal year-end actuarial value of assets, the effects of the 2000-2002 asset value loss will not be fully reflected in the Plan's funding ratio until the end of FY'09.

Although the 2000-2002 asset value loss has been by far the major cause of the Plan's funding ratio erosion, other factors also contributed. Some of these include: the less favorable investment environment that caused us to reduce the actuarial expected rate of return on assets from 9.0% to 8.5%; and the statutory provisions that require us to divert 50% of investment returns in excess of 9% into the Plan's Benefit Increase Reserve such that the Reserve assets are not taken into account for funding ratio and employer contribution rate calculations.

Still other factors contributed to the significant funding ratio deterioration from FY'06 to FY'07. In this most recently completed fiscal year, the System was required to make a variety of changes in actuarial technique and demographic assumptions. These changes, which significantly increased the Plan's unfunded liability, were necessitated by actuarial audits conducted by the Legislature's actuarial auditing firm, Segal & Co. and by the System's actuarial

Introductory Section

auditing firm, Milliman Consultants and Actuaries. Also, a large portion of the participants in the Plan received a significant increase in compensation that will increase future benefit awards and, therefore Plan liability. Finally, the System settled potential litigation by allowing the retirement benefits of those who began to participate in the Plan prior to July 1, 1994 and who are retiring now or in the future to be calculated using final annual compensation rather than the average of the highest three consecutive years of compensation. This calculation method will mean higher benefits for many of those affected and increased liability for the Plan.

Employer Contribution Rates

When times were good and the EORP was over-funded, the Plan's employer contribution rates were rather reasonable. For example, early in the decade the employer contribution was only 7.55%.

But with the decline in the Plan's funding ratio, the employer contribution requirements have been increasing year-by-year. The current EORP employer contribution requirement is 20.2%. But as a result of the Plan's FY'07 lower funding ratio, that aggregate rate will increase to 28.0%, effective July 1, 2008.

As we move into the new fiscal year, the System's Administrator will undertake consultations with representatives of the System's constituency groups and the contributing employers to determine whether a consensus exists with respect to any of a variety of options that could be employed to limit, in the short term, the degree to which the employer rates will increase next July 1st.

FY'07 Investment Results

The FY'07 rate of return on the invested assets of the EORP was 17.0% -- a rate of return that compares favorably with the 15.1% weighted composite rate of return benchmark for the Plan and with its 8.5% actuarial assumed rate of return. In addition, since the return was in excess of 9%, significant new assets flowed into the Plan's Reserve for Future Benefit Increases. However, when compared to the median returns of a variety of large public pension fund "peer groups" for the same time period, the EORP's investment results were only 3rd quartile. This less-than-median-return result underscores the continuing need to move ahead with the restructuring of the System's asset management function that began during this last fiscal year.

The very disappointing FY'06 rate of return results (i.e., 7.87%) brought us to the realization that we could not reasonably expect to achieve our long-term rate of return objectives if we simply continued to manage the Plan's assets as has been done in the past. The past practice of managing all the System's publicly traded portfolios internally has severely limited the Plan's asset diversification and caused the Plan to underperform its public retirement system "peer" groups. In order to better position the Plan to achieve its rate of return expectations, enhance returns, control risk and diversify the Plan's assets through exposure to a wider mix of financial markets, we began in FY'07 an asset management restructuring. During the fiscal year, the following was accomplished:

- A new independent investment consulting firm (Ennis, Knupp & Associates) was retained in December, 2006;
- A new and more diversified asset allocation was adopted in February;
- A plan for implementing the new asset allocation was adopted in May;
- The Fund Manager accepted the retirement resignation of the System's CIO and authorized a nation-wide search for a new CIO using an executive search firm;
- A new custodian bank (BNY Mellon Bank) was hired in August (effective October 1st); and
- Barclay Global Investors (BGI) was approved in May to manage the transition of the System's equity assets into U.S. and non-U.S index accounts at BGI with the asset transfer expected to occur after the 2007 holiday season.

Had the Plan had its new asset allocation fully implemented throughout FY'07, and had it just gotten market returns for the various asset classes reflected in the new allocation, the Plan's rate of return would have been 19.25%, as opposed to the 17.0% the Plan actually received. Certainly, given the Plan's financial status, we can ill afford to miss out on such additional investment return potential.

As FY'08 proceeds, the asset management restructuring plan contemplates the following:

- Completing the contract negotiations with BGI;
- Transitioning the System's equity assets into index accounts at BGI;

- Completing the CIO search and selection process;
- Modifying the System's asset allocation to incorporate asset types that have relatively low correlations to equities;
- Conducting searches for portfolio managers that can actively manage equity portfolios with global mandates and for managers that can construct portfolios that have relatively low correlations to equity portfolios;
- Reviewing the internally managed bond portfolio and making changes as appropriate; and
- Increasing commitments to real estate and private equity to achieve greater diversification in those areas.

Expectations for the Financial Status of the EORP in the Future

The funding ratio for the Plan should begin to improve and the employer contribution rates should begin to decline once the 2000-2002 asset value losses drop out of the calculation of the actuarial value of assets (i.e., after the close of Plan FY'09). The fact that, for the first time since June 30, 2000, the Plan had a market value of assets greater than the actuarial value of assets at June 30, 2007 would seem to be a harbinger of an improving trend. The implementation of the System's new asset allocation and the achievement of better-than-expected rates of return on invested assets would serve to accelerate and magnify the expected improving trend.

However, there are two things that could delay the expected improvement:

- A sharp and sustained downturn in the U.S. and global economies and financial markets; and
- Having to reduce the System's actuarial rate of return assumption from 8.5% to 8.0% as was recommended by the actuarial auditing firms, Segal & Co. and Milliman Consultants and Actuaries.

System Governance, Administrative and Internal Control Changes

Developments during the twelve months ending June 30, 2007 that strengthened System governance, increased administrative efficiency and productivity or improved internal controls were as follows:

First, a search process was conducted for a new external audit firm to do a very thorough audit of all aspects of System operations. That process resulted in the selection of the certified public accounting firm of Heinfeld, Meech & Co. P.C. for the external audit role, replacing the firm of Barrows & Schatza.

Second, the Board's Governance Policies were reviewed for compliance once again by Cortex Applied Research. Only a few minor variations were identified; some of these may require amendments to the policies.

Third, the System's Compliance Officer/Internal Auditor initiated a project, the object of which is the development of detailed written procedures for all of the System's processes, including those that relate to asset management as well as benefit determination.

Fourth, the firm of Cost Effective Measurement (CEM) was retained to do an evaluation of the System's historical asset management cost effectiveness in relation to the System's peer group. The report will be made public in December.

Fifth, as indicated above, the System carried out its first actuarial audit and implemented all the immediately necessary changes in actuarial technique and demographic assumptions. These are reflected in the EORP's FY'07 actuarial valuation results.

Sixth, as indicated above, the Board retained a new investment consulting firm, Ennis, Knupp & Associates, to provide the Board with advice and analysis with respect to the management of the System's assets that is independent of that received from the System's professional investment staff.

Seventh, the management staff conducted a search process for a firm to do an independent IT assessment. The staff search committee created for that purpose recommended, and the Board approved, the selection of the Torus Business Group for this assignment. The IT assessment will include, among other things, a focus on the options available for improving the System's position with respect to business continuity and disaster recovery.

Finally, the System implemented a new web site to enable EORP contributing employers to transmit electronically payroll deduction records to accelerate the process and improve efficiency.

Introductory Section

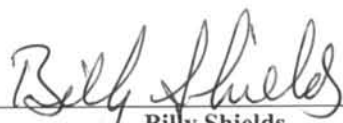
Conclusion


As a Board, we intend to continue our commitment to make the changes that are necessary to improve the financial status of the EORP, moderate the required contributions of the Plan's participating employers and faithfully serve the interests of the Plan's participants and beneficiaries.

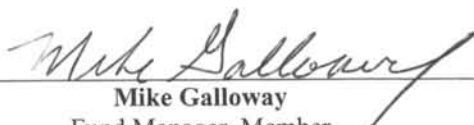
We appreciate having the opportunity to serve the State of Arizona, its political subdivisions and its EORP stakeholders and we look forward to continuing to serve as members of the Fund Manager for this System.

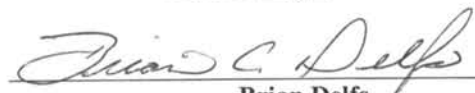
Respectfully submitted,

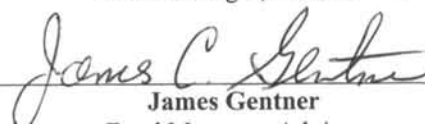


Carter Olson
Fund Manager, Chairman

Billy Shields
Fund Manager, Vice Chairman

Fritz Beesemyer
Fund Manager, Member

Mike Galloway
Fund Manager, Member

Brian Delfs
Fund Manager, Advisor

James C. Gentner
Fund Manager, Advisor

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CORRECTIONS OFFICER RETIREMENT PLAN
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James Gentner
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Ryan Parham
Interim CIO

Tracey D. Peterson
Assistant Administrator-COO

February 8, 2008

The Fund Manager
Public Safety Personnel Retirement System
State of Arizona
Phoenix, Arizona

Gentlemen:

There is presented, herewith, the Twenty-Sixth Comprehensive Annual Financial Report (CAFR) of the operations and financial conditions of the Elected Officials Retirement Plan (EORP), State of Arizona, for the fiscal year ended June 30, 2007. The Plan is a uniform statewide retirement system that provides retirement, disability and survivor benefits, post retirement adjustments and health insurance subsidies for judges and state, county and local elected officials of participating governmental employer units.

Arizona Revised Statutes Title 38 requires the Fund Manager to transmit to the Governor and the Legislature this annual report within six months of the close of each fiscal year. Incorporated in this report are the audited financial statements, management's discussion and analysis, and other financial data from the June 30, 2007 report of Heinfeld, Meech & Co. P.C., Certified Public Accountants and auditors for the System. Also included are the actuarial certification statement and the actuarial balance sheet from the June 30, 2007 actuarial valuation prepared by the System's actuary, Rodwan Consulting Company.

FINANCIAL INFORMATION

The primary responsibility for the integrity and objectivity of the financial statements and related financial data rests with the management of the System. The financial statements were prepared in conformity with generally accepted accounting principles appropriate for government-sponsored defined benefit pension plans. Management believes that all other financial information included in this annual report is consistent with those financial statements.

It is the System's policy to have and maintain an effective system of accounting controls. We believe our controls are adequate to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and to produce the records necessary for the preparation of financial information. There are limits inherent in all systems of internal control based on the recognition that the costs of such systems should be related to the benefits to be derived. Management believes the System's controls provide this appropriate balance.

The System uses the accrual basis of accounting for both revenues and expenses. Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a period of at least twenty but not more than thirty years.

REVENUES

Revenues to the System are derived from four sources: member contributions, employer contributions, a portion of judicial filing fees and returns on the invested assets of the Plan. As shown by the Schedule of Revenues by Source included in the Statistical Section later in this report, the System had a positive investment return this fiscal year that was further enhanced by member contributions, direct employer contributions and fee income. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

Introductory Section

ADMINISTRATIVE AND INVESTMENT EXPENSES

The EORP FY'07 administrative and investment-related expenses totaled \$449.3 thousand, up from the \$308.4 thousand during the prior year. Administrative and investment expenses were approximately 12 basis points of the total assets managed. This is very low compared with other public retirement systems. A dedicated staff and constantly improving internal expertise has enabled management to keep costs relatively low even though assets managed have been increasing and service needs have been escalated due to increasing numbers of participants and beneficiaries.

INVESTMENTS

The total rate of return on the EORP assets for the fiscal year was 17.0%. The Investment Section of this Report contains graphs depicting the Plan's performance, a detailed summary of the investment portfolio, all investment transactions, and commissions paid to investment professionals who provide services to EORP. All Plan investments were held in trust by the Arizona subsidiary of Wells Fargo, the System's custodian bank.

SYSTEM FINANCIAL OUTLOOK

The following is a summary of the principal trends, and the reasons for those trends, with respect to the financial status of the EORP.

Financial Trends With Respect to Funding Ratios and Employer Contribution Requirements

As Table 1 below shows, the funding ratio of the EORP has declined over the past ten years. During that time, the Plan has gone from an overfunded to an underfunded situation. Table 1 shows the funding ratio calculated using fiscal year-end actuarial value of assets (i.e., an average of the market value of assets over the four years ending June 30th through June 30, 2004 and over the seven years ending June 30th for subsequent fiscal years) and also fiscal year-end market value of assets.

As the funding ratio of the Plan has declined, the employer contribution rate has escalated, as Table 2 illustrates. (The employee rate is fixed by statute and is currently 7.0%.)

EORP

Table 1 – Funding Ratios of the EORP (Actuarial Value & Market Value)

Actuarial Value										
Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EORP	121.1%	124.8%	130.1%	141.7%	125.5%	118.7%	104.4%	92.3%	89.9%	74.6%
Market Value										
EORP	141.0%	140.5%	140.2%	116.2%	86.5%	84.3%	81.5%	77.1%	79.4%	75.1%

Table 2 – Aggregate Employer Contribution Rate By Employer Fiscal Year

Fiscal Year	2003	2004	2005	2006	2007	2008	2009
EORP Rate	7.55%	13.49%	14.54%	20.54%	18.55%	20.21%	28.0%

Reasons for the Funding Ratio Decline and the Contribution Rate Increase

The principal reasons for the Plan's funding ratio decline and the employer contribution rate increase are:

- The \$113.1 million asset value loss sustained by the Plan during fiscal years 2001 and 2002;
- The expected less favorable investment environment that caused the System to reduce the actuarial expected rate of return on assets from 9.0% to 8.5%;
- The statutorily required allocation of investment returns in excess of 9% (that are generated on the EORP's assets that support the benefits being paid to eligible beneficiaries) to the EORP's Benefit Increase Reserve and the fact that the Reserve assets are not taken into account for funding ratio and employer contribution rate calculations;

- The net increase in liability resulting from the System's having to make a variety of changes in actuarial technique and demographic assumptions as recommended by the State Legislature's actuarial auditing firm, Segal & Co. and by the System's actuarial auditing firm, Milliman Consultants and Actuaries;
- The significant increase in compensation for EORP-participating judges that was provided this past fiscal year that will increase future benefit awards and, therefore, Plan liability; and
- The increase in Plan liability that results from the System's settlement of potential litigation such that benefits for participants who commenced participation in the Plan prior to July 1, 1994 will be calculated based on final annual compensation rather than the highest three consecutive years of compensation.

Rates of Return on Investments

Table 3 below shows the rates of return of the EORP over the one year ending June 30, 2007 and the annual average returns over the three, five and ten years ending June 30, 2007 relative to the Plan's weighted composite market return benchmarks for the same periods.

	Table 3 – Investment Portfolio Returns			
	1 Year	3 Year	5 Year	10 Year
EORP	17.0%	11.4%	11.15%	6.75%
Benchmark*	15.13%	9.89%	9.55%	8.03%

*Benchmark 50% S&P 500, 10% S&P 400, 5% S&P 600, 20% Lehman Gov/Credit, 10% Alternative Investments and 5% 91-Day T-Bill.

PSPRS Asset Management Restructuring

The past practice of managing all the Plan's publicly traded portfolios internally has severely limited its asset diversification and caused the Plan to underperform its public retirement system "peer" group. In order to better position the Plan to achieve its rate of return objectives, enhance returns and limit risk through diversification of its assets across a wider mix of financial markets, the System has begun an asset management restructuring. To date the following has occurred:

- A new independent investment consulting firm (Ennis, Knupp & Associates) was retained last December;
- A new and more diversified asset allocation was adopted in February;
- A plan for implementing the new asset allocation was adopted in May;
- The governing Board (i.e., the "Fund Manager") accepted the retirement resignation of the System's CIO and authorized a nation-wide search for a new CIO using an executive search firm;
- A new custodian bank (BNY Mellon Bank) was hired in August (effective October 1st); and
- Barclay Global Investors (BGI) was approved in May to manage the transition of the Plan's equity assets into U.S. and non-U.S index accounts at BGI.

Future steps in the restructuring process include:

- Completing the contract negotiations with BGI;
- Transitioning the System's equity assets into index accounts at BGI;
- Completing the CIO search and selection process;
- Further modifying the asset allocation to incorporate asset class portfolios that have relatively low correlations with equities;
- Commencing searches for portfolio managers that can actively manage equity portfolios with global mandates and for managers that can manage portfolios that have relatively low correlations with equities;
- Reviewing the internally managed bond portfolio and making changes as appropriate;
- Increasing commitments to real estate and private equities to achieve greater diversification in those areas.

Introductory Section

ENACTED LEGISLATION

The only legislation enacted during the 2007 session of the Arizona Legislature that impacted the EORP was a minor bill that defines a qualified domestic relations order (DROs) and establishes a specific procedure for processing such DROs.

ACTUARIAL AND FUNDING INFORMATION

Funding a retirement system on a sound actuarial reserve basis involves the accumulation of substantial reserves to guarantee the payment of promised benefits. These reserves are invested and the rate of investment earnings, over time, is a major factor in determining the employer contribution requirement to meet the calculated level cost of the System.

The System is funded through a statutory member contribution of 7.0% of gross payroll, an employer contribution that is expressed as a level percent of gross payroll and reset annually, depending on the results of the Plan's actuarial valuation, a portion of judicial filing fees and the realized and unrealized returns on the invested assets of the Plan.

The contribution rate for participating employers that will take effect as of July 1, 2008 and that results from the Plan's FY'07 valuation is 28.0%. This rate represents a substantial increase over the 20.2% rate that is currently in effect.

There is no single all-encompassing test to measure a retirement system's funding progress and current status. A traditional measure is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the EORP has been declining over time and was 74.6% as of June 30, 2007. This funding ratio is substantially less than the 89.9% ratio for the Plan as of June 30, 2006.

The reasons for the erosion in the Plan's funding ratio are set forth in the "System Financial Outlook" section above. However, the two factors that are principally responsible for the decline in the ratio from FY'06 to FY'07 are: 1) the \$113.1 million asset value loss that the Plan sustained during the 2001-2002 fiscal year timeframe (the effects of which will not be fully reflected until the end of Plan year 2009 because of the seven year averaging method that is used in calculating the actuarial value of assets); and 2) the additional unfunded liability that resulted from the changes in actuarial technique and demographic assumptions necessitated by the recommendations from the Legislature's actuarial audit firm, Segal & Company and from the System's actuarial audit firm, Milliman Consultants and Actuaries.

POST RETIREMENT BENEFIT INCREASES

State law provides for an annual benefit increase for retirees or their survivors two years after retirement, regardless of age, or when the retiree or survivor attains age 55 and has been retired for a year. These increases are limited to four percent by state law. A benefit increase schedule can be found in the Statistical Section of this CAFR.

These post retirement increases are funded from a portion of the investment returns in excess of 9% that are accumulated in the EORP Reserve for Future Benefit Increases. These reserves are invested along with all other assets of the Plan. The reserve balance, after subtracting the \$9.3 million needed to fund the July 1, 2007 post retirement increase, was \$30.8 million. The reserve balance reflects a significant increase over the prior year's balance of \$16.5 million. The increase is the result of the Plan's FY'07 17.0% investment return.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for the EORP Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This was the twelfth consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our FY'07 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

STRATEGIC INITIATIVES

During this past fiscal year, the EORP governing board (i.e., the Fund Manager) undertook a category of strategic initiatives that will change the way in which the Plan's assets are managed and invested. (See the "System Financial Outlook" section above for details.) In addition, the System's management implemented a number of initiatives to increase the level of service and resources available to meet the growing needs of the EORP stakeholders. These initiatives fall into the following four categories:

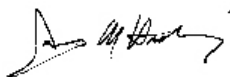
- **Financial Performance:** Initiatives in this category are intended to enable the EORP to achieve its rate of return objectives consistently over time. They include the approval of a new and more diversified asset allocation and a plan to transition the Plan's equity assets to external investment managers and the commencement of the process to retain a new Chief Investment Officer to lead the asset management change agenda.
- **Customer Service:** Implemented initiatives in this category included the augmentation of staffing levels in the Member Services Division and Information Technology Departments to improve the quality, level and timeliness of customer service.
- **Product, Process and Service Improvement:** Initiatives in this category included a continuation of the System's document imaging process, the implementation of new safeguards to protect participant records and data, an IT data base conversion, the automation of the System's payroll process and the addition of a new employer web site to facilitate the transmission of participant contribution deductions.
- **Learning and Growth:** Initiatives in this category, which includes a new staff orientation training program, address the need to attract and retain highly qualified employees who are committed to continuously increasing their ability and desire to produce required results, developing and sustaining effective leadership, and fostering a capable and motivated workforce.

SUMMARY

This report is a product of the collective efforts of the System's staff, under the direction of the PSPRS Fund Manager. It is intended to provide complete and reliable information that will facilitate the management decision process and it serves as a means for determining compliance with the System's governance and investment policies and legal requirements. Copies of this report are provided to the Governor, State Auditor, Legislature and all our member constituency groups. We hope all recipients of this report find it informative and useful.

I would like to take this opportunity to express my gratitude to the members of the Fund Manager, the staff, the System's advisors, and all others who have worked so diligently to assure the continued successful operation of the System. I look forward to the challenge of moving the System forward with a program of constructive and comprehensive change that will maintain high quality customer service and restore the EORP to a path of improving financial status.

Respectfully submitted,



James M. Hacking
Administrator

Fund Manager



Carter Olson
Chairman



Billy Shields
Vice Chairman



Fritz Beesmyer
Member



Mike Galloway
Member



Brian Delfs
Advisor



James Gentner
Advisor

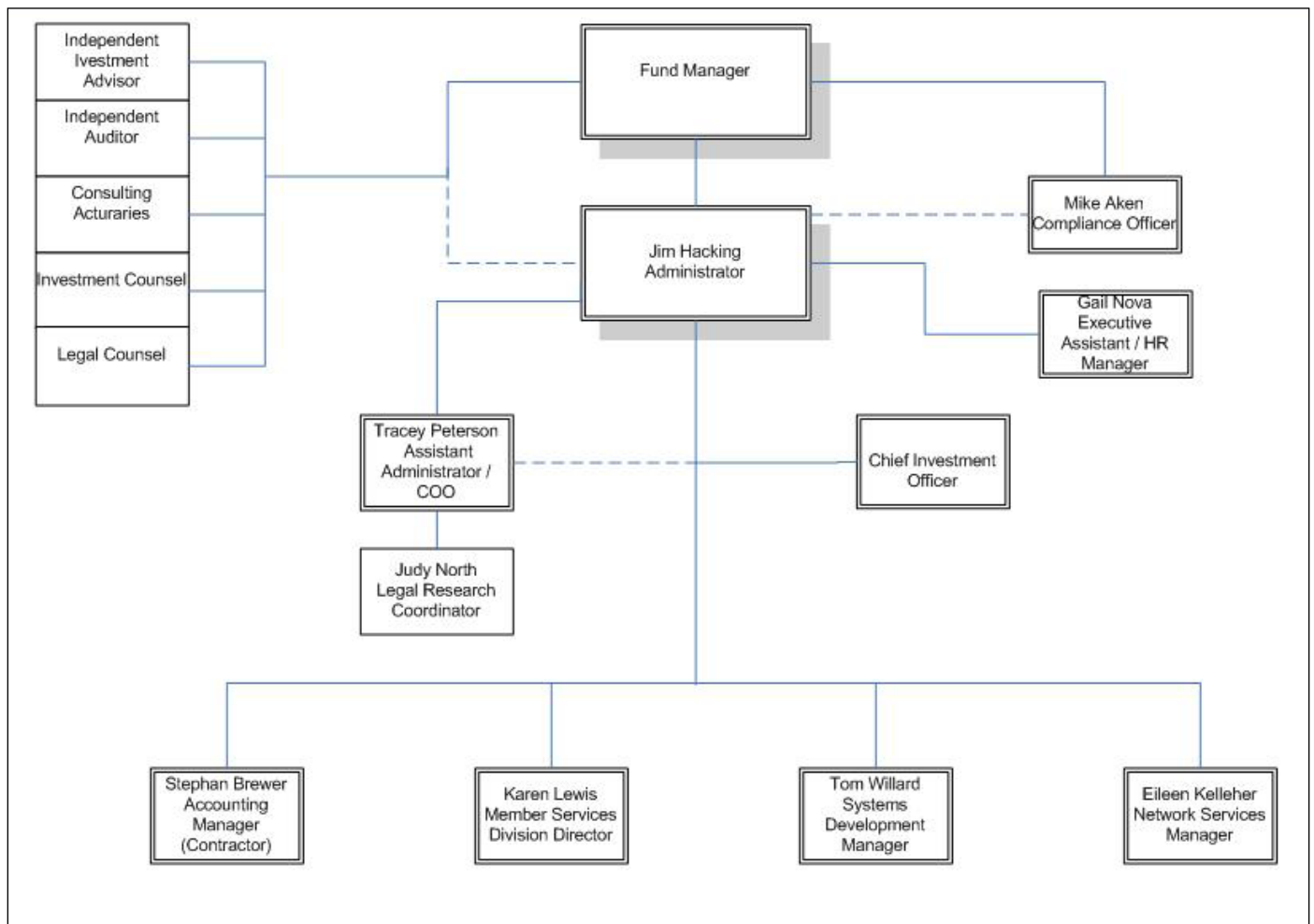
Executive Staff and Organizational Chart



James M. Hacking
Administrator



Tracey D. Peterson
Assistant Administrator
Chief Operations Officer



Professional Advisors

Cortex Applied Research

Ennis Knupp & Associates

Heinfeld Meech & Co, P.C.

Kutak Rock, LLP

McLagan Partners, Inc

Rodwan Consulting Grooup

Rose & Allyn Public Relations

Standard & Poor's Investment Advisory Services LLC

Wells Fargo Bank

Governance Consultant

Investment Advisor

Independent Auditors

General Counsel

Human Resource Consultant

Actuary

Communications Consultant

Investment Consultant

Custodian

A schedule of Administrative Consultant fees may be found in the Financial Section. A schedule of Investment Consultant fees, Brokerage Commissions and Research Expense may be found in the Investments Section.



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INDEPENDENT AUDITORS' REPORT

Fund Manager
Public Safety Personnel Retirement System
State of Arizona
Phoenix, Arizona:

We have audited the accompanying Statement of Plan Net Assets of the Elected Officials Retirement Plan (EORP) as of and for the year ended June 30, 2007, and the related Statement of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of EORP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals as of and for the year ended June 30, 2006, presented in the basic financial statements were audited by other accountants and are included for additional analysis only. Neither we nor the other accountants have performed any auditing procedures on this information since the date of their report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Elected Officials Retirement Plan, as of June 30, 2007, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2008, on our consideration of the Elected Officials Retirement Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 24 through 29 and the Schedule of Funding Progress and Schedule of Employer Contributions on pages 43 and 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise EORP's basic financial statements. The Introductory Section, Supporting Schedules, Other Supplemental Information, Investment Section, Actuarial Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supporting Schedules Information, as listed in the table of contents under the Financial Section, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Other Supplemental Information, Investment Section, Actuarial Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

February 4, 2008

Management Discussion and Analysis

The Elected Officials' Retirement Plan's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Plan's financial activity, identify changes in the Plan's financial position and identify any issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, it is intended to be read in conjunction with the Transmittal Letter, Financial Statements and Notes to the Financial Statements.

Financial Highlights

Key financial highlights for 2007 are as follows:

- The Elected Officials' Retirement Plan (EORP) had a total rate of return of 17.01% this year. Our equity portfolio had a return of 20.53%, which outperformed the stock index by 58 basis points. Our fixed income portfolio had a return of 7.29%, which outperformed the index by 127 basis points.
- As of the close of the fiscal year 2007, the Future Benefit Increase Reserve was \$30.8 million. This will enable another 4% post-retirement adjustment for qualifying retirees or their survivors for the twelfth consecutive year.
- Retirement benefits paid totaled \$28.7 million for the current year, compared to \$27.9 for the previous year. This represents a 9% increase from the prior year. The majority of this increase is the result of the cost of post-retirement adjustments paid to the retirees or their survivors of the Plan.

Overview of the Financial Statements

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand the Plan as an operating entity. The statements and notes then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Plan Net Assets and The Statement of Changes in Plan Net Assets

These statements include all assets and liabilities of the Plan using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements report the Plan's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the financial health, or financial position. Over time, increases or decreases in the net assets are one indicator of the financial health of the Plan.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following The Statement of Plan Net Assets and The Statement of Changes in Plan Net Assets.

Required Supplemental Information

The basic financial statements are followed by a section of required supplemental information. This section includes the Schedule of Funding Progress and the Schedule of Employer Contributions.

The Schedule of Funding Progress shows the ratio of assets as a percentage of the actuarial accrued liability (funding ratio) and the ratio of unfunded actuarial accrued liabilities to member payroll. The trend in these two ratios provides information about the financial strength of the Plan. Improvement is indicated when the funding ratio is increasing and the ratio of the unfunded actuarial accrued liability to payroll is decreasing.

The Schedule of Employer Contributions shows the Annual Required Contributions by fiscal year. The purpose of this schedule is to provide information about the required contributions of the employers and the extent to which those contributions are being made. The information should assist users in understanding the changes and possible reasons for the changes in the Plan's funding status over time.

Supporting Schedules and Supplemental Information

The Supporting Schedules and Supplemental Information Section includes the Supporting Schedule of Changes in Fund Balance Reserves, Supporting Schedule of Administrative Expenses and Payments to Consultants, and the Supplemental Schedule of Cash Receipts and Cash Disbursements and the Agency Fund statement of changes in Assets & Liabilities (see Note 7). The total columns and information provided on these schedules carry forward to the applicable financial statement.

Financial Analysis of the Plan

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS

	As of 6/30/2007	As of 6/30/2006	Change	% Change
Cash and Short-Term Investments	\$285,869	\$915,265	\$(629,396)	(68.77%)
Total Receivables	3,257,498	2,216,057	1,041,441	47.00%
Total Investments	370,388,553	323,825,500	46,563,053	14.38%
Securities on Loan	103,894,449	72,192,390	31,702,059	43.91%
Net Capital Assets	274,898	239,499	35,399	14.78%
Total Plan Assets	478,101,267	399,388,710	78,712,557	19.71%
Accrued Accounts Payable	359,857	44,399	315,457	710.49%
Investment Purchases Payable	4,006,316	-	4,006,316	-
Securities Lending Collateral	103,894,449	72,192,390	31,702,059	43.91%
Total Plan Liabilities	108,260,622	72,236,790	36,023,832	49.87%
Net Assets held in Trust	\$369,840,645	\$327,151,921	\$42,688,725	13.05%

Comparative Statements are included to provide additional analysis of the changes noted on those schedules.

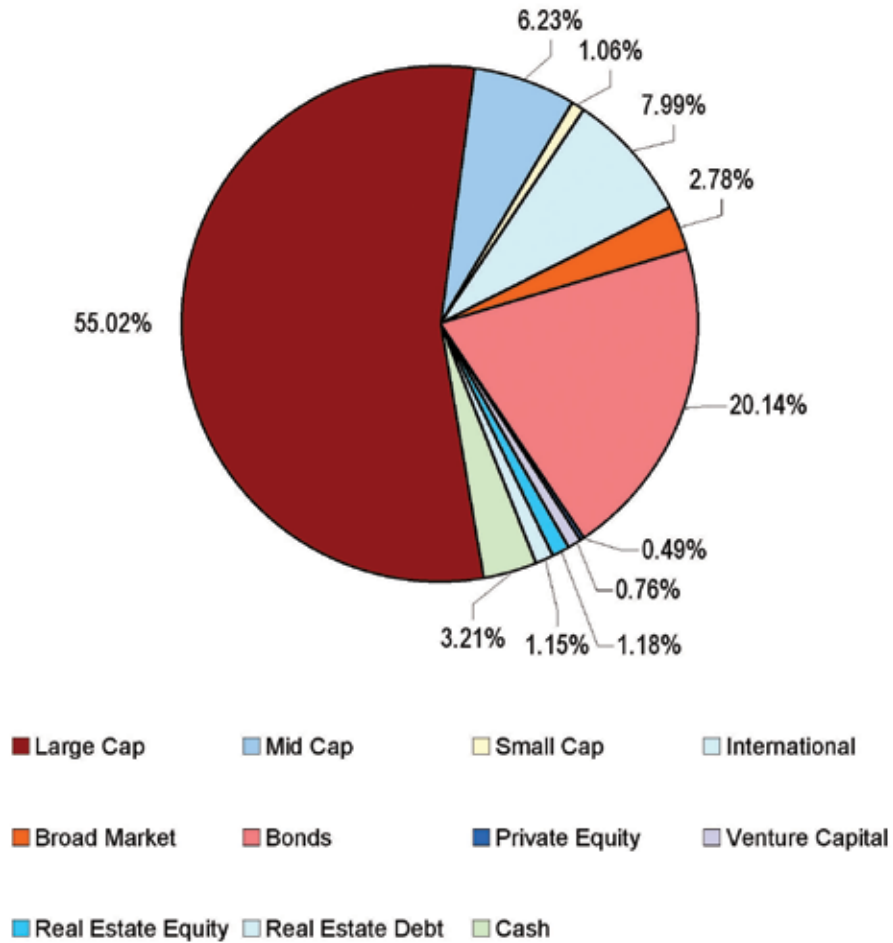
The total net assets held in trust for benefits at June 30, 2007 were \$369.8 million, a 13.05% increase from \$327.1 million at June 30, 2006. The increase in net assets is primarily due to an increase in the financial markets during the fiscal year. The net increase in cash and receivables is attributable to normal fluctuations in investment income receivables during the year. EORP is fully deploying cash in other investments vehicles like exchange traded funds, equities, fixed income and private equity. Detailed information regarding the Plan's investment portfolio is included in the investment section of this report. The increase in security lending collateral is due to normal fluctuations in the lending program. The investment of the collateral fluctuated in a similar manner and benefited from the market gains as well.

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

ADDITIONS	2007	2006	Change	% Change
Total Contributions	\$16,105,040	\$17,721,139	\$(1,616,099)	(9.12%)
Net Investment Income	54,598,524	24,408,222	30,190,302	123.69%
Miscellaneous Income	1,190,489	1,703,177	(512,688)	(30.10%)
Total Additions	71,894,053	43,832,537	28,061,516	64.02%
DEDUCTIONS				
Benefits	28,717,547	27,908,934	808,613	2.90%
Service Transfers and Refunds	147,906	18,339	129,567	706.52%
Administrative Expenses	339,875	247,595	92,281	37.27%
Total Deductions	29,205,329	28,174,867	1,030,462	3.66%
Net (Decrease) Increase	42,688,724	15,657,671	27,031,054	172.64%
Balance Beginning of Year - July 1	327,151,921	311,494,251	15,657,670	5.03%
Balance End of Year - June 30	\$369,840,645	\$327,151,921	\$42,688,724	13.05%

Employer and employee contributions decreased \$1.6 million due to a temporary reduction in the employer contribution rates from 20.54% to 18.55%. The governing board adopted a number of actuarial changes that included extending the period over which unfunded liabilities could be amortized from 20 to 30 years, reducing the salary growth assumption from 6% to 5% and changing the method for calculating the accrued liability from entry age normal method to the projected unit credit method. The combination of these actuarial assumption changes resulted in a slight reduction of the employer contribution rate for FY 2007. For FY 2007, EORP recognized net investment income of \$54.6 million which compares to \$24.4 million in the previous year. This 123.69% increase was due to the positive returns in the financial markets during the fiscal year. Deductions from the EORP net assets held in trust for benefits consist primarily of pension, disability, health insurance subsidies, survivor benefits, member refunds and administrative expenses. For FY 2007, these deductions totaled \$29.2 million, an increase of 3.66% from the \$28.1 million paid during FY 2006.

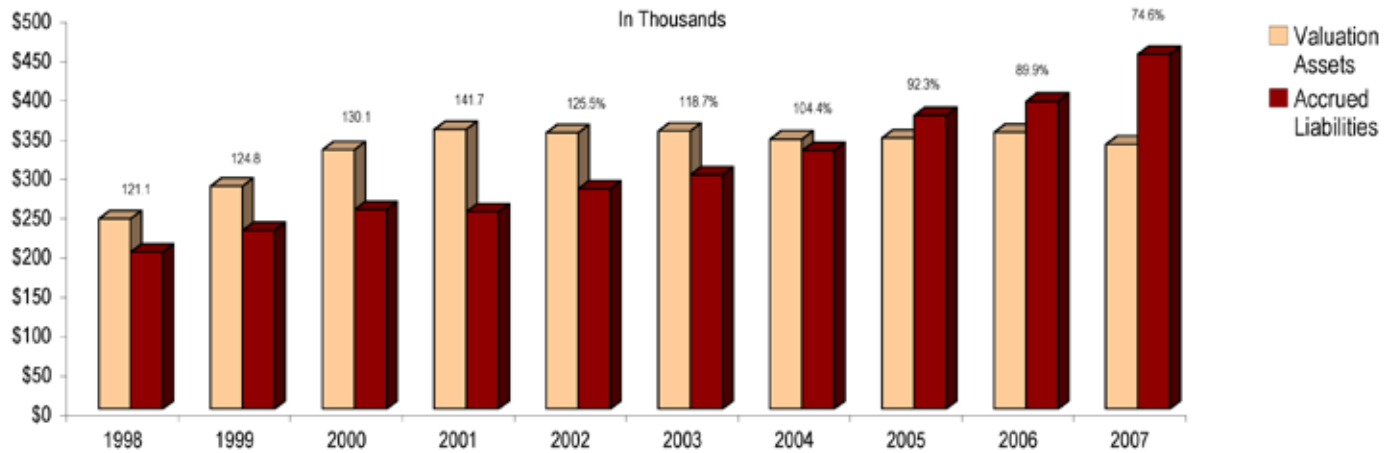
Investment Activities



During FY 2007, the Fund Manager adopted a more diversified asset allocation policy which resulted in an investment total rate of return of 17.01%. At June 30, 2007, EORP held \$270.9 million in equities. The FY 2007 rate of return for EORP equities was 20.53% versus a benchmark rate of return of 19.95%. At June 30, 2007, EORP held \$74.6 million in fixed income securities. The FY 2007 rate of return for EORP fixed income securities was 7.29% versus a benchmark rate of return of 6.02%. The benchmarks for both equities and fixed income securities are representative of the returns that could be expected in a similar investing environment. More detailed information regarding the Plan's investment portfolio can be found in the investment section of this report.

EORP earns additional income by lending investment securities to brokers. This is done on a pooled basis by our custodial bank, Wells Fargo. The brokers provide collateral and generally use the borrowed securities to cover short trades and failed trades.

Historical Trends



Accounting standards require that the “Statement of Plan Assets” reflect investment asset values at fair market value and include only benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the plan is provided in the “Schedule of Funding Progress.” The asset value stated in the “Schedule of Funding Progress” is the actuarial value of assets as determined by calculating the ratio of the market value to book value of assets with the actuarial gains/losses smoothed over a seven year period. Actuarial valuations of the EORP assets and benefit obligations for the retirement plan are performed annually. The most recent actuarial valuation available is as of June 30, 2007.

At June 30, 2007, the total funded status of the EORP decreased to 74.6% from 89.9% at FYE 2006. This decrease in funded status is related primarily to recognition of investment losses in fiscal years 2001 and 2002. These losses should be fully reflected by FYE 2009. A more detailed discussion of the funding status can be found in the Administrator’s Letter of Transmittal in the Introductory section of this report.

Implementation of GASB No. 43

Historically, the contributions, pension benefits, including the health insurance premium subsidy payments, actuarial accrued liabilities and the funded ratio were reported by the Plan as a single, combined pension benefit. However, for FY ’07, the Plan was required to implement Government Accounting Standards Board (GASB) Statement No. 43. This statement requires that the system separately report the assets and liabilities associated with the health insurance premium subsidy by discretely presenting the assets and the liabilities separately from the retirement plan.

The Plan is not statutorily authorized to separately account for the assets, income and/or benefit payments of a supplemental health care benefit. Additionally, the Plan does not administer the health insurance premium subsidy through a separate health care plan as defined by the Internal Revenue Code §401 (h). As mentioned earlier, the Plan has always recognized, reported and funded the actuarial accrued liability for the health insurance premium benefit as another form of postemployment benefit, similar to the disability benefit. Assets and liabilities are not discretely presented for the disability benefits or any other benefits provided under the plan.

The characteristics of the plan have resulted in unique and unusual reporting of the benefit under the requirements of GASB Statement No. 43. Complying with this new statement will result in the following changes to the financial statements and actuarial disclosures for the Plan’s pension benefits:

- Contributions and benefits paid totaling \$850,915 for the health insurance premium subsidy will no longer be reported on the Statement of Changes in Plan Net Assets with the financial information for the retirement plan. This information will be reported separately as an “Agency Fund” (unaudited) and

can be found in the Statement of Changes in Assets & Liabilities in the Other Supplemental Information section included in the Financial Section of the report.

- The Schedule of Funding Progress will no longer include the liability for the health insurance premium subsidy. This will increase the System's funded ratio. The funded ratio without the health insurance premium subsidy liability is calculated as 76.8%. If the liability associated with the health insurance premium subsidy were to be included, the funded ratio is calculated as 74.6%.
- The Schedule of Employer Contributions will include the annual required employer contributions for the retirement plan plus the difference between the annual required contributions calculated for the health insurance premium subsidy and the benefits paid. For FY '07, this amounted to a difference of \$672,204 added back to the employer contributions, which gives the "appearance" that the contributions for the retirement plan were over funded and the contributions for the health insurance premium subsidy were under funded. If a portion of the system assets were allocated to both the retirement and health insurance subsidy benefits, the percentage contributed for both benefits would be 100% funded.
- Beginning FY '08, the participating employer groups will implement GASB Statement No. 45. This statement will require the participating employers to report the liabilities associated with the health insurance premium subsidy as well as any other supplemental healthcare benefits provided to the retiree under the healthcare plans that they administer (sponsor).

The management of the Plan maintains that the reporting described above has limitations and decreases the reporting transparency of the health insurance premium subsidy. Management will continue to evaluate options to enhance the reporting of the health insurance premium subsidy benefit payments, employer contributions, and actuarial required disclosures.

Request for Information

This report is designed to provide a general overview of the Elected Officials' Retirement Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Elected Officials' Retirement Plan, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016.

Statement of Plan Net Assets At June 30, 2007 **with Comparative Totals for 2006**

	Retirement Plan	
	2007	2006
ASSETS		
Cash and Short-Term Investments	\$285,869	\$915,265
Receivables		
Members' Contributions	106,488	82,576
Employers' Contributions	170,936	157,305
Court Fees	364,387	341,382
Interest and Dividends	1,396,074	1,314,794
Investment Sales	1,201,913	-
Other	17,700	320,000
Total Receivables	<u>3,257,498</u>	<u>2,216,057</u>
Investments at Fair Value (Notes 2 and 3)		
U.S. Government Securities	35,243,541	27,927,449
Corporate Bonds	39,395,289	41,363,374
Corporate Notes	11,588,779	13,342,942
Equities	270,935,457	230,181,065
Alternative Investments	13,225,489	11,010,670
Total Investments	<u>370,388,554</u>	<u>323,825,500</u>
Securities Lending Collateral	103,894,449	72,192,390
Capital Assets (Note 4)		
Land	33,145	33,145
Building	216,546	201,815
Furniture, Fixtures & Equipment	50,875	18,767
Total Capital Assets	<u>300,566</u>	<u>253,727</u>
Accumulated Depreciation	(25,668)	(14,228)
Net Capital Assets	<u>274,898</u>	<u>239,499</u>
Total Plan Assets	<u>478,101,267</u>	<u>399,388,710</u>
LIABILITIES		
Accrued Accounts Payable	359,857	44,399
Investment Purchases Payable	4,006,316	-
Securities Lending Collateral	103,894,449	72,192,390
Total Plan Liabilities	<u>108,260,622</u>	<u>72,236,790</u>
Net Assets Held in Trust for Pension Benefits	<u>369,840,645</u>	<u>327,151,921</u>
Net Asset Reserves		
Refundable Members' Reserve	39,760,374	36,639,094
Employers' Reserve	299,252,390	273,989,707
Future Benefit Increase Reserve	30,827,881	16,523,120
Total Net Asset Reserves	<u>\$369,840,645</u>	<u>\$327,151,921</u>

A schedule of funding progress is presented immediately following the notes to the financial statements.
The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Retirement Plan	
	2007	2006
Additions		
Contributions		
Members' Contributions (Notes 2 and 5)	\$4,089,699	\$3,811,179
Employers' Contributions (Notes 2 and 5)	6,080,175	7,624,960
Court Fees	3,977,740	3,855,007
Member Service Purchase	1,957,426	2,429,992
Total Contributions	16,105,040	17,721,139
Net (Depreciation) Appreciation		
in Fair Value of Investments (Notes 2 and 3)	43,614,635	14,717,527
Interest	6,114,333	5,882,681
Dividends	4,800,479	3,781,356
Securities Lending Activities		
Securities Lending Income	\$4,533,193	\$3,490,145
Borrower Rebates	(4,278,264)	(3,365,267)
Agents Share of Income	(76,457)	(37,445)
Net Securities Lending Income (Note 3)	\$178,472	\$87,433
Investment Income	54,707,919	24,468,997
Less Investment Expense	(109,396)	(60,776)
Net Investment Income	54,598,524	24,408,222
Amounts Transferred from Other State-Sponsored Pension Plans and	1,190,489	1,703,177
Total Additions	71,894,053	43,832,537
Deductions		
Retirement Benefits (Note 1)	28,717,547	27,908,934
Refunds to Terminated Members (Note 1)	127,738	7,246
Administrative Expenses	339,875	247,595
Amounts Transferred to Other State-Sponsored Pension Plans	20,169	11,093
Total Deductions	29,205,329	28,174,867
Net (Decrease) Increase	42,688,724	15,657,671
Net Assets Held In Trust for Pension Benefits		
Beginning of Year - July 1	327,151,921	311,494,251
End of Year - June 30	\$369,840,645	\$327,151,921

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Note 1-Plan Description:

Organization-The Elected Officials' Retirement Plan (EORP), a pension trust fund of the State of Arizona, is a cost sharing multiple-employer public employee retirement plan established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes, to provide benefits for elected officials and judges of certain state, county and local governments. The Fund Manager of the Public Safety Personnel Retirement System (PSPRS) administers the EORP Plan.

The Fund Manager is a five member board. Effective August 6, 1999, it became the Governor's responsibility to appoint all members of the Fund Manager, who serve a fixed three-year term. The Fund Manager is responsible for the investment of the Plan's assets, setting employer contribution rates in accordance with an actuarial study, adopting a budget, hiring personnel to administer the Plan, setting up records, setting up accounts for each member, paying benefits and the general protection and administration of the System. Senate Bill 1378, which was enacted August 12, 2005, requires substantial investment experience for the member of the Fund Manager that represents the state as an employer and the public member of the Fund Manager.

The addition or deletion of eligible groups does not require the approval of the other participating employers. The Fund Manager approves new eligible groups for participation. The EORP is reported as a component unit of the State of Arizona.

The Fund Manager of the EORP is also responsible for the investment and general administration of two other statewide retirement plans-the Corrections Officer Retirement Plan and the Public Safety Personnel Retirement System. The investments and expenses of these plans are held and accounted for separately from those of the EORP.

Since none of the plans have the authority to impose their will on any of the other plans, each plan is reported as its own stand-alone government.

At June 30, 2007 and 2006, the number of participating local government employer groups were:

	2007	2006
Cities and Towns	21	20
Counties	15	15
State Agencies	1	1
Total Employers	37	36

All state and county elected officials and judges are members of the Plan. Any city or town in the State of Arizona may elect to have its elected officials covered by EORP. At June 30, 2007 and 2006, statewide EORP membership consisted of:

	Retirement Plan		Health Insurance Subsidy	
	2007	2006	2007	2006
Retirees	826	797	453	426
Terminated vested employees	86	85		
Current Employees:				
Vested	513	517		
Non-vested	300	283		
Total Members	1,725	1,682	453	426

EORP provides retirement benefits as well as health insurance subsidy, death and disability benefits. Generally, all benefits vest after five years of credited service.

A summary of benefit and plan provisions follows:

Summary of Benefits:**Purpose (A.R.S. §38-810.02.B)**

To provide a uniform, consistent, and equitable statewide program for those eligible elected officials as defined by the Plan.

Eligibility (A.R.S. §38-801 and §38-804.A)

All elected officials are members of the Plan, except that an elected official who is subject to term limits may elect not to participate in the Plan for that specific term of office. An elected official means every elected official of this state, every elected official of each county of this state, every justice of the supreme court, every judge of the court of appeals, every judge of the superior court, every full-time superior court commissioner, the administrator of the fund manager if the administrator is a natural person and each elected official of an incorporated city or town whose employer has executed a proper joinder agreement for coverage of its elected officials.

Contributions (A.R.S. §38-810.A)

Each member shall contribute 7% of salary to the Plan on a pre-tax basis. Each employer shall contribute the following:

For state and county employers, a designated portion of certain fees collected by the Clerks of the Superior Courts, Courts of Appeals and the Supreme Court plus additional contributions as determined by actuarial valuation to ensure proper funding for the Plan, but not less than 10% of salary.

For incorporated city or town employers, a level per cent of salary as determined by actuarial valuation to ensure proper funding for the Plan but not less than 10% of salary.

Credited Service (A.R.S. §38-801.3)

Means the number of whole and fractional years of a member's service as an elected official after the elected official's effective date of participation for which member and employer contributions are on deposit with the fund, plus credited service as an elected official transferred to the Plan from another retirement system or plan for public employees of this state, plus service as an elected official before the elected official's effective date of participation which is being funded pursuant to a joinder agreement or which was redeemed pursuant to §38-816.

Average Yearly Salary (A.R.S. §38-801.2)

Means the highest average total salary over a period of three consecutive years within the last 10 completed years of credited service which was paid to the elected official at the time of death or retirement or at the time the elected official ceases to hold office.

Normal Retirement (No Reduction for Age) (A.R.S. Sections 38-805.A and 38-808.B.1)

An elected official may retire upon meeting one of the following age and service requirements:

1. Age 65 years, with 5 or more years of credited service.
2. Age 62 years, with 10 or more years of credited service.
3. Twenty or more years of credited service regardless of age.

The amount of a normal retirement pension is 4% of the member's average yearly salary multiplied by the years of the member's credited service. Maximum is 80% of the member's average yearly salary.

Early Retirement (Reduction for Age) (A.R.S. §38-805.B and §38-808.B.1)

An elected official who has five or more years of credited service may retire before meeting the age or service requirement for normal retirement. The amount of an early retirement pension is computed by determining

Financial Section

the amount of accrued normal retirement pension and then reducing the amount determined by three-twelfths of one percent for each month early retirement precedes the member's normal retirement age as noted above. The maximum reduction is 30%.

Vested Termination (Deferred Retirement)

An elected official with five or more years of credited service retains entitlement to deferred pension, upon ceasing to be an elected official, if the elected official's accumulated contributions are left on deposit in the retirement plan. The amount of pension is determined in the same manner as a normal or early pension, whichever is applicable.

Disability Retirement (A.R.S. §38-806 and §38-808.B.2)

The Fund Manager may retire an elected official who becomes incapacitated for the purpose of performing the duties of the member's office based on a certification by a majority of the board of physicians that the member is mentally or physically incapacitated, the incapacity occurred during the member's term of office, and qualifies for a disability retirement. The amount of pension is 80% of member's average yearly salary if the elected official has ten (10) or more years of credited service or 40% of the member's average yearly salary if the elected official has five (5) but less than ten (10) years of credited service or 20% of the member's average yearly salary if the elected official has fewer than five (5) years of credited service.

Survivor Pension (A.R.S. §38-807)

Payable to the eligible beneficiary of a retired member or an active or inactive member who dies before retirement. An eligible beneficiary is a surviving spouse who was married to the retired or active or inactive member for at least two years; or, if there is no eligible spouse, then to a minor child. A surviving spouse's pension terminates upon death. A surviving child's pension terminates upon marriage, adoption or death or upon attainment of age 18 years, unless the child is a full-time student under the age of 23 or the child is under a disability which began before the child attained the age of 23. The amount of a surviving spouse's pension is three-fourths of the pension being paid the deceased retired elected official or three-fourths of the pension which the member would have received assuming he had retired under a disability. The amount of a surviving child's pension is an equal share of the amount of a surviving spouse's pension.

Death Benefit (A.R.S. §38-807.E)

If a member dies and no pension is payable on account of the member's death, the deceased member's accumulated contributions shall be paid to the beneficiary named by the member.

Termination Refund (A.R.S. §38-804.B)

Upon termination of employment for any reason other than death or retirement, a member shall, within 20 days after filing an application with the Fund Manager, receive a lump-sum payment, equal to the accumulated contributions, as of the date of termination, less any benefits paid or any amounts owed to the Plan. A member forfeits all membership rights and credited service in the Plan upon receipt of refund of contributions. If the member has 5 or more years of credited service upon termination they shall receive an additional amount according to the schedule below:

5 to 5.9—25% of member contributions deducted from the member's salary pursuant to ARS 38-810.A

6 to 6.9—40% of member contributions deducted from the member's salary pursuant to ARS 38-810.A

7 to 7.9—55% of member contributions deducted from the member's salary pursuant to ARS 38-810.A

8 to 8.9—70% of member contributions deducted from the member's salary pursuant to ARS 38-810.A

9 to 9.9—85% of member contributions deducted from the member's salary pursuant to ARS 38-810.A

10 or more—100% of member contributions deducted from the member's salary pursuant to ARS 38-810.A plus interest at 3% if left on deposit after 30 days.

Reemployment And Repayment Of Contributions (A.R.S. §38-804.F)

An elected official who terminates membership in the Plan and takes a refund of his contributions and is later re-employed as an elected official may restore prior service credits, if the elected official signs a written election within 90 days after re-employment to reimburse the Plan within one year after the date of re-employment. The reimbursement will equal the amount previously withdrawn plus interest from the date of withdrawal to the date of repayment at the rate of 9% compounded annually.

Reemployment After Retirement (A.R.S. §38-804.G and H)

If a retired member subsequently becomes an elected official, contributions shall not be made to the Plan nor shall additional years of credited service accrue. Additionally, if a retired member, by reason of election or reelection, becomes an elected official of the same office from which the member retired within a time period that is less than one full term for that office, the member shall not receive a pension until the member ceases to hold the same office.

Redemption Of Prior Service (A.R.S. §38-816) (Use Form E2)

Active members who had previous service in this state as an elected official with an employer now covered by the Plan before the effective date of participation and who received a refund of accumulated contributions from the applicable retirement system upon termination or who was not covered by a retirement system or plan during the elected official's prior elected official service may elect to redeem any part of the prior service by paying into the Plan the amounts required in A.R.S. §38-816.B. In addition, active members can also elect to redeem prior employment they may have had with the U.S. Government, a state of the U.S. or a political subdivision of a state of the U.S.

Purchase Of Prior Active Military Service (A.R.S. §38-820) (Use Form 18)

A member may purchase up to four years of prior active military time even if the member will receive a military pension. The member must pay the actuarial present value of the increase of credited service resulting from this purchase.

Transfer Between State Retirement Systems (A.R.S. §38-921 and §38-922) (Use Form U-2)

Members of any of the four Arizona state retirement systems or plans who have credited service under another Arizona state retirement system or plan may transfer or redeem the credited service to their current Arizona state retirement system or plan by paying or transferring the actuarial present value of the credited service into their current Arizona retirement system or plan to the extent funded on a market value basis as of the most recent actuarial valuation with approval of the Fund Manager or retirement boards involved. A reduced credited service amount may be transferred based on the transfer of the actuarial present value of the credited service under the prior Arizona state system or plan to the extent funded on a market value basis as of the most recent actuarial valuation.

Cola Benefit Increases (A.R.S. §38-818)

Effective July 1 of each year, each retired member or survivor of a retired member may be entitled to a permanent benefit increase in their base benefit. The maximum amount of the increase is 4% of the EORP benefit being received on the preceding June 30 and is contingent upon sufficient excess investment earnings for the fund. To be eligible for the increase the member or survivor must be age 55 or older on July 1 of the current year and was receiving benefits on or before July 31 of the previous year. A member or survivor is also eligible if they were receiving benefits on or before July 31 of the two previous years regardless of age.

Health Insurance Premium Subsidy (A.R.S. §38-817) (See Note 7)

For EORP retirees who have elected group health and accident insurance coverage provided and administered by the state or another EORP employer and who had eight or more years of credited service, the EORP will pay up to the following amounts. Those retired members who had between five and eight years of credited service will receive a proportionate share of the subsidies:

Single:

Not Medicare Eligible \$150.00

Medicare Eligible \$100.00

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Family:

All Medicare Eligible \$170.00

One with Medicare \$215.00

All Not Medicare Eligible \$260.00

State Taxation of EORP Benefits (A.R.S. §38-811 and §43-1022)

Effective tax year commencing January 1, 1989, all EORP retirement benefits in excess of \$2500 annually will be subject to Arizona state tax.

Note 2-Summary of Significant Accounting Policies and Plan Asset Matters:

Basis of Accounting

EORP financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Pension and Health Insurance subsidy benefits are recognized when due and payable in accordance with the terms of the Plan. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid. Furniture, fixtures and equipment purchases costing \$5,000 or more, when acquired, are capitalized at cost.

Improvements, which increase the useful life of the property, are also capitalized. Investment income net of administrative and investment expenses are allocated to each employer group based on the average relative fund size for each employer group for that year.

By state statute, the Plan is required to provide information in the financial statements used to calculate Net Effective Yield. Net Effective Yield includes only realized gains and losses. The Net Realized Gains (Losses) used in this calculation totaled \$24,425,002 for FYE 2007 and \$21,475,437 for FYE 2006. This calculation is independent of the calculation of the change in the fair value of investments and may include unrealized amounts from prior periods.

Note 3 - Cash and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Plan's deposits may not be returned. The deposits are held in one financial institution with a balance of up to \$100,000 insured by the Federal Deposit Insurance Corporation (FDIC). The Plan mitigates custodial credit risk for deposits by requiring the financial institution to pledge securities from an acceptable list in an amount at least equal to 102% of the aggregate amount of the deposits on a daily basis.

In addition to the FDIC insurance coverage on the operating and money market accounts of EORP, Wells Fargo pledged the following securities to EORP, Public Safety Personnel Retirement System and the Correction Officers Retirement Plan on June 30, 2007, as collateral:

\$24,638,000 FNIONP878442 6.00% Maturity Date 07/01/36

\$3,135,000 FNIONP256327 6.00% Maturity Date 7/01/36

\$670,000 FNIONP256327 6.00% Maturity Date 7/01/36

All monies shall be secured by the depository in which they are deposited and held to the same extent and in the same manner as required by the general depository law of the state.

Cash balances represent both operating and cash accounts held by the bank and investment cash on deposit with the investment custodian. All deposits are carried at cost plus accrued interest. The following table is a schedule of the aggregate book and bank balances of all cash accounts as of June 30, 2007:

The difference between the reported balance and the bank balance is a dividend payment recorded by EORP on June 29, 2007; the cash was received by Wells Fargo on July 2, 2007.

	Reported Amount	Bank Balance
Collateralized	\$285,869	\$248,693
Uncollateralized	-0-	-0-
Total Deposits	\$285,869	\$248,693

Investments

EORP investments are reported at Fair Value. Fair Values are determined as follows: Short-term investments are reported at Fair Value, which approximates Cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value. Direct-ed real estate and venture capital investments are reported at cost. Investment income is recognized as earned.

Statutes enacted by the Arizona Legislature authorize the Fund Manager to make investments in accordance with the “Prudent Man” rule. The Fund Manager is not limited to so-called “Legal Investments for Trustees.”

In making every investment, the Fund Manager shall exercise the judgment and care under the circumstances then prevailing which men of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income from their funds as well as the probable safety of their capital, provided:

1. That not more than seventy percent of the pension fund shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.
2. That not more than five percent of the pension fund shall be invested in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of and fully guaranteed by the United States Government.
3. That not more than five percent of the voting stock of any one corporation shall be owned.
4. That corporate stocks eligible for purchase shall be restricted to stocks that, except for bank stocks and insurance stocks, are either:
 - A) Listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §7811);
 - B) Designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §7811)
 - C) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state; or
 - D) Listed or approved on issuance for listing on an exchange registered of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than ten percent of the pension fund shall be invested in foreign equity securities on these exchanges, based on the cost value of the stocks irrespective of capital appreciation. A.R.S. §38-848.D.

Custodial Credit Risk

Custodial Credit Risk is the risk that EORP will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterpart to the investment or deposit transaction fails. As of June 30, 2007, EORP had no fund or deposits that were not covered by depository insurance or collateralized with securities held by Wells Fargo Bank’s trust department or agent. Nor does EORP have any investments that are not registered in the name of EORP and are either held by the counterpart or the counterpart’s trust department or agent.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the System. As of June 30, 2007, the Plan’s fixed income assets that were not government guaranteed represented 89% of the fixed income portfolio.

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Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. According to those guidelines, the fixed income portfolio must have a minimum weighted average quality rating of A3/A-. Fixed income securities must have a minimum quality rating of Baa3/BBB- at the time purchase. The portion of the bond portfolio in securities rated Baa3/BBB- through Baa1/BBB+ must be 20% or less of the fair value of the fixed income portfolio.

Included in the fixed income portfolio are cash equivalents or commercial paper.

Commercial Paper must have a minimum quality rating of A-1/P-1 at the time of purchase.

Investments in derivatives are limited to collateralized mortgage obligations (CMO), collateralized bond obligations (CBO), collateralized debt obligations (CDO), and asset-backed securities (ABS).

In preparing this report, collateral for securities lending has been excluded because it is invested in a securities lending collateral investment pool.

The following tables summarize the Plan's fixed income portfolio exposure levels and credit qualities.

Average Credit Quality and Exposure Levels of Non-government Guaranteed Securities

Fixed Security Type	Fair Value June 30, 2007	% of all Fixed Income Assets	Weighted Avg. Credit	Dispersion Requiring Further Exposure
Corporate Bonds	\$35,658,357	42%	A	See below
Mortgages	350,916	0%	AA	None
Agencies	26,218,290	31%	AAA	None
CBO	2,740,856	3%	A	See below
CDO	645,159	0%	A	See below
Commercial Paper	11,588,779	13%	A1P1	See below
Total	\$77,202,357	89%		

Ratings Dispersion Detail

Credit Rating Level	Corporate Bonds	CBO	CDO	Commercial Paper
AAA	\$1,621,407			
AA	3,395,406			
A	19,871,914	1,894,856	480,000	11,588,779
BBB	9,789,145	846,000	165,159	
BB	490,225			
B	490,230			
Total	\$35,658,357	\$2,740,856	\$645,159	\$11,588,779

Concentration of credit risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. Other than bonds used as direct obligations of and fully guaranteed by the U.S. Government, not more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency or corporation.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using segmented time distributions. It is widely used in the management of fixed income portfolios in that it quantifies the risk of interest rate changes. The Plan does invest in fixed income securities with floating rates that contain coupon adjustment mechanisms in a rising interest rate environment.

The following tables quantify, to the fullest extent possible, the interest rate risk of the Plan's fixed income assets.

**Segmented Time Distribution by Security Type
(including Government Guaranteed Securities)**

Fixed Income Security	<1	1 - 5	6 - 10	11 - 15	16 - 20	>20	Totals
Corporates		4,057,110	4,319,516	4,866,314	5,700,000	16,715,418	35,658,358
Agencies	398,089		7,151,366	7,046,324	2,579,908	9,042,603	26,218,290
CBO		846,000		737,158		1,157,698	2,740,856
CDO			480,000			165,159	645,159
Commercial Paper	11,588,779						11,588,779
Totals	\$11,986,868	\$4,903,110	\$11,950,881	\$12,649,796	\$8,279,908	\$27,080,878	76,851,442

**Callable Bonds by Security Type
(including Government Guaranteed Securities)**

Fixed Income Security Type	Fair Value June 30, 2007	% of All Fixed Income Assets
Corporates	\$6,642,472	8%
Agencies	12,523,644	15%
Totals	\$19,166,116	23%

Foreign Currency Risk

Foreign currency risk is risk that changes in exchange rates will adversely impact the fair value of an investment. Because it has no direct international holdings, EORP does not have any foreign currency risk exposure.

Security Lending Program

The Plan is party to a securities lending agreement with a bank. The bank, on behalf of the Plan, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The Plan requires collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value.

Asset Class	Out on Loan	Total Available to Loan	% of Available to Loan
Equities	69,279,223	270,935,457	26%
Agencies	16,724,459	26,218,290	64%
Treasuries	9,025,251	9,025,251	100%
Corporate Bonds	6,517,948	39,395,288	17%
Totals	101,546,881	345,574,286	29%

As of June 30, 2007 the fair value of securities on loan was \$101,546,881 and the collateral was \$103,894,449. The Plan receives a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent.

The Plan participates in a collateral investment pool. All security loans may be terminated on demand by either the lender or the borrower.

All matched loans shall have matched collateral investments.

The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. Additionally, at

least 20% of total collateral investments shall be invested on an overnight basis. At June 30, 2007, the weighted average maturity was 15 days for all investments purchased with cash collateral from unmatched loans. The Plan has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the Plan. Under this program, the Plan has not experienced any defaults or losses on these loans.

Note 4 –Capital Assets

These assets are stated at cost, and depreciable assets are depreciated using the straight-line method over the estimated life of the asset. Repairs and maintenance are charged to expense as incurred. Depreciation expense for June 30, 2007 was \$11,440. A new office facility located at 3010 E. Camelback Road was purchased in June of 2004. The property consists of a two-story building, the bottom floor of which is fully leased. The administrative staff of the System occupies the second floor.

The table below is a schedule of the capital asset account balances as of June 30, 2006, and June 30, 2007, and

Schedule of Capital Asset Account Balances

Capital Assets	Land	Building and Improvements	Furniture, Fixtures and Equipment	Total Capital Assets
Balance June 30, 2006	33,145	201,815	18,767	253,727
Additions		14,731	32,108	46839
Deletions	-0-	-0-	-0-	-0-
Balance June 30, 2007	33,145	216,546	50,875	300,566
Accumulated Depreciation				
Balance June 30, 2006	-0-	(10,195)	(4,033)	(14,228)
Additions	-0-	(5,294)	(6,146)	(11,440)
Deletions	-0-	-0-	-0-	-0-
Balance June 30, 2007	-0-	(15,489)	(10,179)	(25,668)
Net capital assets	33,145	201,057	40,696	274,898

changes to those account balances during the year ended June 30, 2007.

NOTE 5-Contributions Required and Contributions Made

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay all benefits when due. The normal cost and actuarial accrued liability are determined using projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities and assets in excess of actuarial accrued liabilities are being amortized as a level percent of payroll over a closed thirty (30) year period (29 years remaining as of June 30, 2007). Assets in excess of actuarial accrued liabilities are amortized over an open period of twenty (20) years. Beginning July 1, 2006, the minimum employer contribution rate increased from 5% to 10%.

During the year ended June 30, 2007, contributions totaling \$14,147,614 (\$6,080,175 employer [\$5,407,971 pension and \$672,204 health insurance subsidy contributions in excess of benefits paid], \$3,977,740 court fees and \$4,089,699 member) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of June 30, 2005. The employer contributions consisted of approximately \$9,271,932 for normal cost [\$8,654,451 pension and \$617,481 health insurance subsidy] plus \$1,636,898 for amortization of the unfunded actuarial accrued liability in aggregate [\$731,259 pension and \$905,639 health insurance subsidy]. Employer contributions represented 18.55% of covered payroll. [15.87% for normal costs (14.82% pension and 1.05% health insurance) and 2.68% for amortization of assets in excess of the actuarial accrued liability in aggregate 1.14% pension and 1.54% health insurance subsidy]. Member contributions represented 7.00% of covered payroll and are attributable to normal costs.

Note 6 – Other Benefits

The PSPRS adopted a supplemental defined contribution plan for all contributing members of an eligible group. An eligible group is defined as the employees of the Fund Manager, PSPRS, the EORP and the Corrections Officer Retirement Plan. The employees of any of these eligible groups must make an election to participate within two years after the employee first meets the eligibility requirements to participate in the plan. The election to participate is irrevocable and continues for the remainder of the employee's employment with the employer. If an employee elects to participate, the employee must contribute at least 1% of the employee's gross compensation. The IRS maintains that the Employers designate the amounts contributed by each employee. All amounts contributed are subject to the discretion and control of the Employer. Employee contributions and earnings to the plan are immediately vested. Employer contributions, if any, are vested based on the following schedule:

Less than one year of service	0%
One year but less than two	20%
Two years but less than three	40%
Three years but less than four	60%
Four years but less than five	80%
Five years or more	100%

PSPRS administers the supplemental defined contribution plan through a third party administrator. All contributions are sent directly to the third party administrator from the participating employer groups.

NOTE 7 – Health Insurance Subsidy

The plan description, summary of significant accounting policies, and contributions required for the health insurance subsidy are the same as the retirement plan and can be found under Notes 1, 2 and 3. The health insurance premium subsidy provided by A.R.S. § 38-817 consists of a fixed dollar amount set by statute and paid by the System on behalf of eligible retired members. The subsidized health benefits are provided and administered by the Arizona State Retirement System, Arizona Department of Administration or the participating employer of the retired member. According to Governmental Accounting Standards Board (GASB) Statement No. 43, the health insurance subsidy paid by the Plan represents other post employment benefits. The Plan does not administer a separate healthcare plan as defined under IRC § 401(h) or an equivalent arrangement. In addition, the Plan is not statutorily authorized to maintain a separate account for the health insurance subsidy assets and benefit payments. Therefore, in accordance with GASB No. 43, the healthcare subsidy is reported as an Agency Fund. All assets of the Plan are available to pay both pension benefits and the health insurance subsidy. The pension benefits and health insurance subsidy are funded through employer contributions based on an annual actuarial valuation. Contributions are separately accounted for by employer but are not segregated by contribution type. Contributions in excess of the health benefit subsidy payments are reported in the retirement plan. Therefore, no accumulated assets or liabilities to participating employers are reported in the Agency Fund. For FY '07, contributions collected for the health insurance subsidy amounted to \$1,523,119 and the health benefit subsidy payments were \$850,915. The excess contributions of \$672,204 were added to the retirement plan for reporting purposes. Effective FY '08, each participating employer is required by GASB Statement No. 45 to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan and actuarial methods and assumptions used.

Note 8 – Plan Termination

EORP and its related plans are administered in accordance with Arizona statutes. These statutes do provide for termination of the plans under A.R.S. 41-3016.18. The plans are scheduled to terminate on July 1, 2016.

Note 9 – Contingencies

Some of our real estate partners in the investments categorized as “other investments” have obtained third party financing, which is secured by real property. The Plan has entered into Capital Call Agreements with regards to these third party financing arrangements. The Capital Call Agreements, in the unlikely event of default, limit the Plan to the amount of the defaulted payment or the original terms of the investment approved by the Fund Manager, whichever is less.

NOTE 10 – Funding Status and Progress

The Plan’s funded status as of the most recent valuation data is as follows:

(in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) EANC/PUC* (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered- Payroll ((b-a)/c)
RETIREMENT PLAN						
6/30/07	\$336,717	\$438,229	\$101,512	76.8%	\$61,308	165.6%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial methods and assumptions used for the pension benefits are as follows:

Valuation Date:	June 30, 2007
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level percent of Payroll, Closed
Remaining Amortization Period:	29 years closed for unfunded actuarial accrued liability, 20 years open for excess
Asset Valuation Method:	7-Year Smoothed Market Value
Investment Rate of Return:	8.50%
Projected Salary Increases:	5.50% - 9.00%, which includes inflation at 5.00%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective. Consistent with this perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial calculations are based on the benefits provided under the terms of the Plan in effect at the time of each valuation. These benefits are described in Note 1 under “Summary of Benefits.”

NOTE 11 – Required Schedules

The Schedule of Funding Progress and the Schedule of Employer Contributions are presented immediately following the notes to the financial statements.

SCHEDULE OF FUNDING PROGRESS

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) EANC/PUC ¹ (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio ² (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
RETIREMENT PLAN						
6-30-98	\$241,884	\$199,662	\$(42,222)	121%	\$40,441	-104%
6-30-99	\$283,337	\$227,100	\$(56,237)	125%	\$43,087	-131%
6-30-00	\$329,777	\$253,478	\$(76,299)	130%	\$45,382	-168%
6-30-01	\$355,768	\$250,987	\$(104,781)	142%	\$48,669	-215%
6-30-02	\$351,349	\$279,947	\$(71,402)	126%	\$48,729	-147%
6-30-03	\$353,463	\$297,891	\$(55,572)	119%	\$49,351	-113%
6-30-04	\$343,376	\$328,921	\$(14,455)	104%	\$50,624	-29%
6-30-05	\$344,604	\$373,341	\$28,737	92%	\$53,449	54%
6-30-06	\$351,701	\$391,403	\$39,702	90%	\$54,696	73%
6-30-07	\$336,717	\$438,229	\$101,512	77%	\$61,308	166%

¹Entry Age Normal Cost method through 6-30-2004. Projected Unit Credit method from 6-30-2005.

²Beginning 6-30-07, funded ratio calculation does not include AAL for the health insurance premium subsidy. If the AAL for the health insurance premium subsidy was included, the funded ratio would be 74.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Retirement Plan Employer Contributions	
	Annual Required Contributions	Percentage Contributed
1998	\$3,941,018	100%
1999	\$4,126,694	100%
2000	\$3,851,940	100%
2001	\$3,163,111	100%
2002	\$3,656,604	100%
2003	\$3,755,629	100%
2004	\$6,976,772	100%
2005	\$6,809,136	100%
2006	\$11,479,967	100%
2007 ¹	\$9,385,711	107%

See notes to the Schedules of Required Supplementary Information

¹Total Employer Contributions received during Fiscal Year Ended June 30, 2007 were \$10,908,830. GASB reporting requires discretely presenting the health insurance premium subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance premium subsidy were calculated to be \$1,523,119. The benefits paid for the health insurance premium subsidy were \$850,915. The difference between the calculated annual required contributions and the benefits paid of \$672,204 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 107.1% for the retirement plan.

Required Supplementary Information**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION:**

The historical trend information for the pension benefits are presented as required supplemental information. There were no significant factors affecting trends as of the June 30, 2007 valuation. Actuarial studies are completed in accordance with GASB Statements 25.

Actuarial valuations are prepared annually as of June 30 for each participating employer. To facilitate budgetary planning needs, employer contribution requirements are provided for each participating employer's fiscal year that commences after the following fiscal year end. For example, the contribution requirements for fiscal year 2007 were determined by actuarial valuations as of June 30, 2005.

The actuarial methods and assumptions used for the pension benefits are as follows:

Valuation Date:	June 30, 2007
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level percent of Payroll, Closed
Remaining Amortization Period:	29 years closed for unfunded actuarial accrued liability, 20 years open for excess
Asset Valuation Method:	7-Year Smoothed Market Value
Investment Rate of Return:	8.50%
Projected Salary Increases:	5.50% - 9.00%, which includes inflation at 5.00%

SCHEDULE OF CHANGES IN FUND BALANCE RESERVE

	Refundable Members' Reserve	Employers' Reserve	Future Ben- efit Increase Reserve
Balance - June 30, 2005	<u>\$31,849,614</u>	<u>\$256,033,121</u>	<u>\$23,611,516</u>
Distribution of Revenues and Expenses			
Members' Contributions	3,811,179		
Employers' Contributions		11,479,967	
Earnings (Loss) on Investments Net of Investment Expenses		24,408,221	
Pension and Insurance Benefits		(27,908,934)	
Refunds to Terminated Members	(7,246)		
Administrative Expenses		(247,595)	
Distribution of Transfers			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets		(1,858,226)	1,858,226
Amount Utilized by Benefit Increases Granted		8,946,622	(8,946,622)
Net Transfers from Other State-Sponsored Pension Plans	3,088,633	1,033,445	
Inter-System Transfers -- Member Account			
Balances Transferred to Employers' Reserve due to Retirement	(2,103,086)	2,103,086	
Balance - June 30, 2006	<u>\$36,639,094</u>	<u>\$273,989,707</u>	<u>\$16,523,120</u>
Distribution of Revenues and Expenses			
Members' Contributions	4,089,699		
Employers' Contributions		10,908,830	
Earnings (Loss) on Investments Net of Investment Expenses		54,598,524	
Pension and Insurance Benefits		(29,568,462)	
Refunds to Terminated Members	(107,258)	(20,480)	
Administrative Expenses		(339,875)	
Distribution of Transfers			
Excess Investment Earnings to be used for Future Benefit Increases		(20,886,734)	20,886,734
Earnings (Loss) on Excess Investment Earnings Account Assets		(2,810,583)	2,810,583
Amount Utilized by Benefit Increases Granted		9,392,556	(9,392,556)
Net Transfers from Other State-Sponsored Pension Plans	422,547	747,773	
Inter-System Transfers -- Member Account	1,957,427		
Balances Transferred to Employers' Reserve due to Retirement	(3,241,134)	3,241,134	
Balance - June 30, 2007	<u><u>\$39,760,374</u></u>	<u><u>\$299,252,390</u></u>	<u><u>\$30,827,881</u></u>

**SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
RECEIPTS		
Members' Contributions	\$4,065,787	\$3,769,044
Employers' Contributions	6,917,459	7,508,427
Court Fees	3,954,735	3,856,141
Interest	6,104,124	5,650,090
Dividends	4,756,518	3,857,828
Real Estate Income (Net)	(595)	6,795
Securities Lending Income	151,362	88,894
Amounts Transferred from Other State-Sponsored Pension Plans	1,190,489	1,703,177
Purchase of Service Credits	1,957,426	2,429,992
Due to Other Pension Plans	3,578,711	-
Maturities and Sales of		
U.S. Government Securities	1,734,982	1,905,187
Corporate Bonds	12,689,702	8,005,532
Corporate Notes	875,666,696	552,859,606
Alternative Investments	4,485,708	16,289,253
Equities	96,386,120	57,186,400
Total Receipts	1,023,639,225	665,116,365
DISBURSEMENTS		
Pension Benefits	29,568,462	27,908,934
Refunds to Terminated Members	127,738	7,246
Investment and Administrative Expenses	449,270	308,370
Amounts Transferred to Other State-Sponsored Pension Plans	20,169	11,093
Due From Other Pension Plans	-	1,309,106
Acquisitions of:		
U.S. Government Securities	8,938,193	12,765,095
Corporate Bonds	10,506,046	6,916,023
Corporate Notes	873,912,532	551,186,113
Alternative Investments	5,529,100	5,058,660
Equities	95,217,112	59,712,668
Total Disbursements	1,024,268,622	665,183,309
DECREASE IN CASH	(629,397)	(66,944)
BEGINNING CASH BALANCE - July 1	915,266	982,210
ENDING CASH BALANCE - June 30	\$285,869	\$915,266

SCHEDULE OF ADMINISTRATIVE EXPENSES

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>
Accounting and Auditing Services	\$4,850	\$-	\$4,850
Actuarial Services	14,131	-	14,131
Communications	2,208	438	2,646
Computer Related Expense	11,708	2,321	14,029
Contractual Services	5,145	1,020	6,165
Depreciation Expense	9,562	1,896	11,458
Fund Manager Initiatives	2,465	489	2,953
Furniture and Equipment	700	139	839
Investment Services	-	13,998	13,998
Local Board Training	190	38	227
Supplies & Service	4,261	845	5,106
Payroll Taxes and Fringe Benefits	36,896	11,243	48,139
Postage Expenses	3,094	613	3,708
Professional Services	120,316	29,594	149,910
Salaries and Wages	113,026	44,386	157,412
Training Expenses	11,323	2,376	13,699
	<u>\$339,875</u>	<u>\$109,396</u>	<u>\$449,270</u>

SCHEDULE OF CONSULTANT EXPENSES

	<u>Fees Paid</u>
Barrows & Schatza, PLC	\$4,850
Clark Consulting, Inc.	1,473
Cortex Applied Research, Inc.	1,855
Kutak Rock, LLP	125,389
McLagan Partners, Inc.	250
Milliman	6,165
Pridestaff	854
Rodwan Consulting Group	14,131
Rose & Allyn Public Relations	2,525
Spinelli	473
Standard & Poor's	1,973
Stivers Staffing Services	4,783
Systems Integration Solutions, Inc.	1,506
	<u>\$166,227</u>

Financial Section
Other Supplemental Information

**AGENCY FUND-HEALTH INSURANCE PREMIUM SUBSIDY
STATEMENT OF CHANGES IN ASSETS & LIABILITIES (unaudited)
FOR THE YEAR ENDED JUNE 30, 2007**

	Balance at Beginning of Year	Additions	Deletions	Balance at End of Year
Health Insurance Subsidy				
Assets				
Cash	-	850,915	850,915	0
Total Assets	0	850,915	850,915	0
Liabilities				
Benefits Payable	-	850,915	850,915	0
Total Liabilities	0	850,915	850,915	0

**HEALTH INSURANCE PREMIUM SUBSIDY
SCHEDULE OF FUNDING PROGRESS**
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) EANC/PUC* (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c))
6/30/07	\$-	\$13,070	\$13,070	0.0%	\$61,308	21.3%

GASB reporting requires discretely reporting the health insurance premium subsidy separately from the retirement plan. As a result, the funded ratio for the retirement plan on page 43 does not include this portion for the health insurance premium subsidy. If you include the actuarial accrued liabilities for the health insurance premium subsidy with the retirement plan, the funded ratio is 74.6%.



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**STANDARD
& POOR'S**

**Standard & Poor's Investment
Advisory Services LLC**

55 Water Street, 42nd Floor
New York, NY 10041-0003
212 438 3737 Tel
212 438 3929 Fax

September 14, 2007

The Fund Manager
Elected Officials Retirement Plan
of the State of Arizona
3010 E. Camelback Road Ste. 200
Phoenix, Arizona 85016

Dear Sirs:

The attached charts and tables depict the investment performance for the Elected Officials Retirement Plan of the State of Arizona. The performance results shown are based entirely on data provided by the plan's staff and does not constitute an audit on Standard & Poor's part. We note that Standard & Poor's has assumed that all data that has been supplied by the staff is accurate and complete and that Standard & Poor's has not taken steps to verify same. We also note that the performance was calculated by using linked daily returns. This methodology takes daily cash inflows and outflows into account. In previous years, the performance was calculated under the assumption that cash inflows and outflows take place uniformly throughout each month.

The performance data include realized and unrealized capital gains and losses, as well as interest and dividend income earned by the fund.

Based on the foregoing, during the past fiscal year, the stock portfolio underperformed the S&P 500 index, but outperformed a target equity benchmark consisting of the S&P 500, S&P Midcap 400 and S&P Smallcap 600 weighted in fixed proportions. The bond portfolio outperformed the Lehman Government/Credit Index.

Sincerely,



David Braverman
Vice President

www.standardandpoors.com

Fund Investment Objectives

The objective of the Fund is to ensure the integrity of the Elected Officials' Retirement Plan, Public Safety Personnel Retirement System and the Corrections Officer Retirement Plan in order to adequately fund benefit levels for members as stated in Title 38, Chapter 5, articles 3, 4 and 6 of the Arizona Revised Statutes and as amended from time to time by the Legislature. To achieve the objective, the Fund will do the following:

1. Maintain a goal for the Fund's assets to be equal to the Fund's liabilities within any twenty-year period;
2. Annually adjust the employer contribution rates based on the recommendations made by the annual actuarial valuations;
3. Determine a reasonable contribution rate necessary to fund benefits approved by the legislature and then reduce the variation in the employer contribution rate over time to the Fund;
4. Preserve and enhance the capital of the Fund through effective management of the portfolio in order to take advantage of attractive opportunities various markets and market sectors have to offer;
5. Provide the opportunity for increased benefits for retirees as the legislature may from time to time enact through systematic growth of the investments of the fund.

Consistent with the Fund objectives, the primary investment objective of the Fund is to maximize long-term real investment returns (after inflation) recognizing established risk (volatility) parameters and the need to preserve capital by:

1. Deriving a reasonable asset allocation model that attempts to fully achieve the primary investment objective, over the long term;
2. Consistent with these policies and the direction of the Fund Manager, strategically allocating within asset classes and investment styles in order to enhance investment returns. This strategic allocation must at all times be within ranges set forth in these Policies;
3. Regularly reviewing the status of investments;
4. Regularly assessing the need to adjust the mix, type and composition of the investment classes within the allocation ranges.

The possibility of short-term declines in the market value of the Fund or the Fund's assets is a recognized consequence of achieving potentially higher long-term investment returns.

The time horizon for evaluating total fund investment performance is long-term.

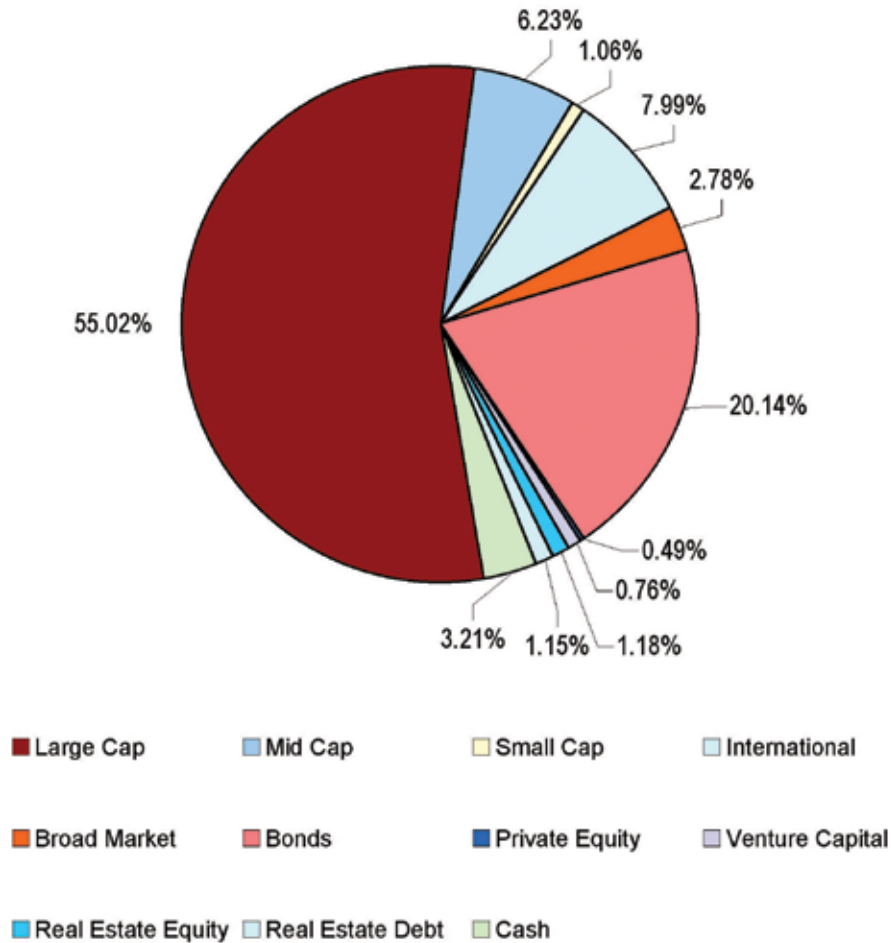
Annualized Rates of Return

	1 Year	3 Year	5 Year	10 Year
EORP Total Fund	17.01%	11.40%	11.15%	6.75%
Balanced Index	15.13%	8.23%	7.84%	6.78%
EORP Domestic Equity	20.53%	11.90%	11.88%	5.67%
Equity Benchmark	19.95%	11.47%	10.59%	6.83%
EORP Fixed Income	7.29%	5.73%	6.65%	7.09%
Lehman Aggregate Index	6.02%	3.84%	4.70%	6.06%
91 Day T-Bill	5.19%	3.77%	2.75%	3.79%

**Time-weighted rate of return based on the market rate of return.*

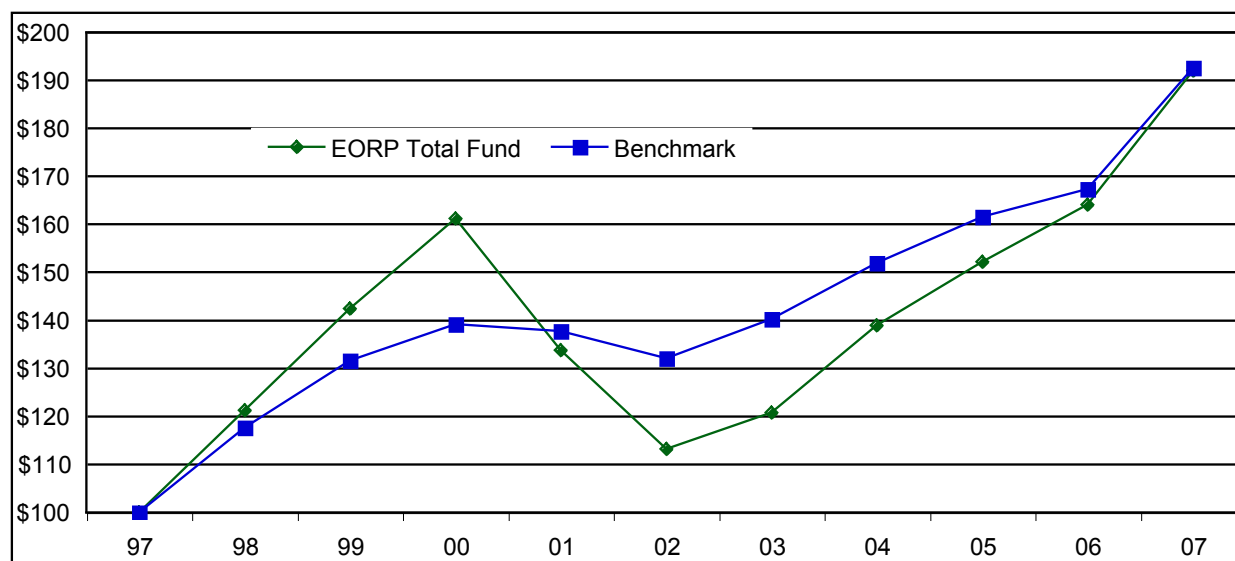
Asset Allocation

June 30, 2007

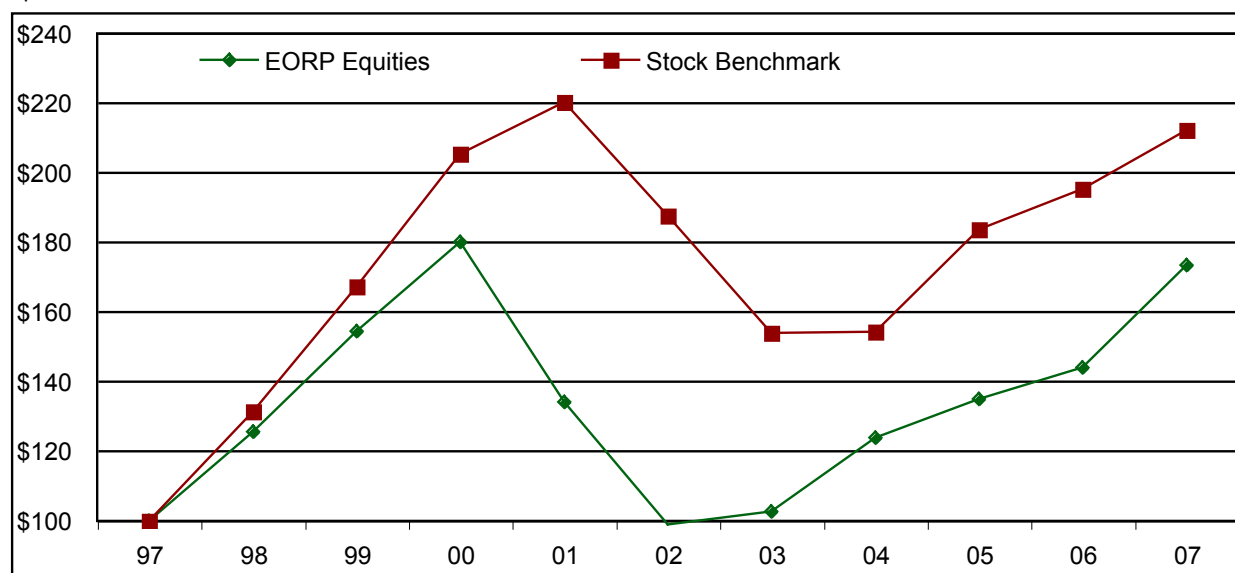


Ten Year Cumulative Return, Benchmark & Indices

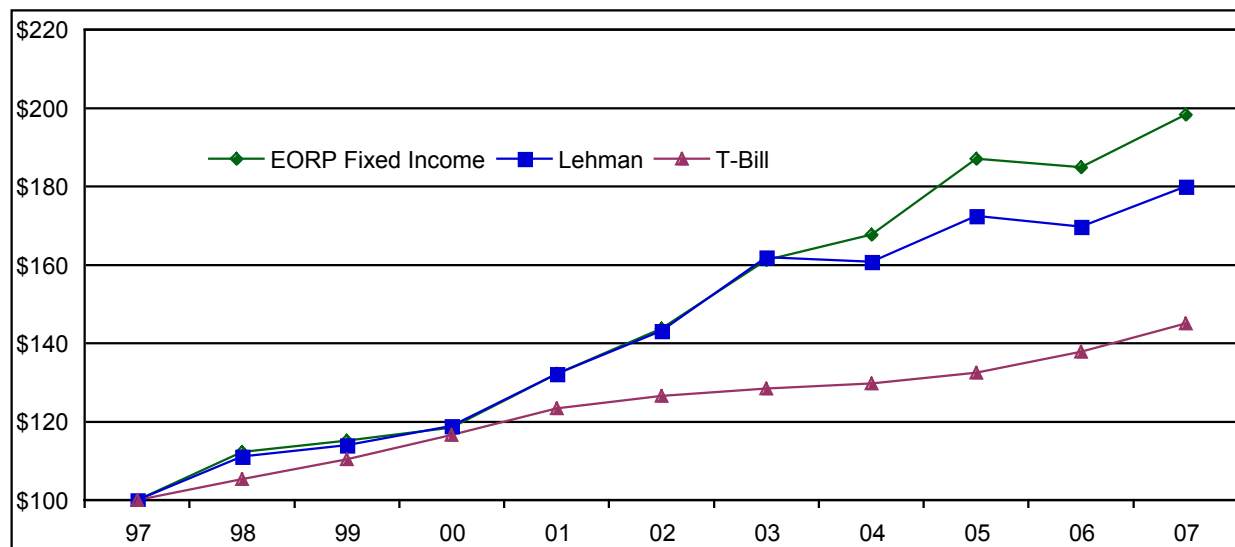
Total Fund



Equities



Fixed Income



TOP 10 EQUITY HOLDINGS

SHARES	DESCRIPTION	FAIR VALUE
131,800	EXXON MOBIL CORP	11,055,384
64,675	VANGUARD TOTAL STOCK MARKET ETF	9,661,152
58,300	iSHARES MSCI EMERGING MARKET ETF	7,675,195
175,100	GENERAL ELECTRIC CO	6,702,828
123,500	CITIGROUP, INC.	6,334,315
102,300	BANK OF AMERICA CORPORATION	5,001,447
168,600	MICROSOFT CORPORATION	4,968,642
57,800	iSHARES EAFE INDEX ETF	4,668,506
73,100	PROCTER & GAMBLE COMPANY	4,472,989
51,300	CHEVRON CORP	4,321,512

TOP 10 CORPORATE BOND HOLDINGS

PAR VALUE	DESCRIPTION	FAIR VALUE
2,850,000	HUTCHISON WHAMPOA FINANCIAL	3,139,560
2,000,000	BAYER HYPO-VEREINSBANK	2,441,500
1,927,388	PREFERRED CPO	2,038,425
1,000,000	SECURITY MUTUAL LIFE NEW YORK	1,237,970
1,105,578	REG DIVERSIFIED FUNDING SR NOTES	1,228,596
1,000,000	BANC ONE CORP	1,194,590
1,000,000	LEHMAN BROTHERS HOLDINGS INC	1,170,740
1,000,000	UNION CENTRAL LIFE	1,069,280
941,804	MMCAPS FUNDING I LTD/INC	1,031,276
1,000,000	PROTECTIVE LIFE CPI+150	941,140

SUMMARY OF CHANGES TO INVESTMENT PORTFOLIOS

(in thousands)

Description	Percent at Fair Value	Balance June 30, 2006		Acquisitions	Maturities and Sales	(Premium) Discount	Balance June 30, 2007		Percent at Fair Value
		Fair Value	Book Value				Fair Value	Book Value	
U.S. Treasury Obligations	2.30%	7,458	5,964	1,592		4	9,025	7,553	2.44%
Federal Agency Obligations	6.32%	20,470	20,977	7,346	1,745	6	26,218	26,573	7.08%
Total Government Securities	8.62%	27,927	26,942	8,938	1,745	10	35,244	34,126	9.52%
Corporate Bonds	12.77%	41,363	39,504	10,506	11,691	70	39,395	38,249	10.64%
Total Bond Portfolio	21.40%	69,291	66,445	19,444	13,435	79	74,639	72,375	20.15%
Corporate Notes	4.12%	13,343	13,343	873,913	875,667		11,589	11,589	3.13%
Equities	71.08%	230,181	181,604	95,217	74,241		270,935	202,580	73.15%
Alternative Investments	3.40%	11,011	11,011	5,529	3,314		13,225	13,225	3.57%
Total Portfolio	100.00%	323,826	272,403	994,103	966,657	79	370,389	299,770	100.00%

SCHEDULE OF COMMISSIONS &
INVESTMENT MANAGEMENT COSTS

Broker	Number Of Shares Traded	Average Commission	Total Commissions
ABEL / NOSER CORP.	314,868	.015	\$4,723
BLOOMBERG TRADEBOOK LLC	606,478	.010	\$6,065
GREENBERG FINANCIAL GROUP	539,200	.020	\$10,784
INVESTORS CAPITAL CORPORATION	316,100	.020	\$6,322
ISI GROUP, INC.	340,300	.040	\$13,612
MORGAN STANLEY DEAN WITTER	384,100	.020	\$7,682
REGAL SECURITIES, INC.	133,660	.020	\$2,673
SAMCO FINANCIAL SERVICES, INC.	321,150	.020	\$6,423
SANFORD C. BERNSTEIN & CO., LLC	390,050	.040	\$15,602
U.S. FINANCIAL INVESTMENTS INC.	275,099	.020	\$5,502
UBS / PAINE WEBBER	673,132	.020	\$13,463
WELLS FARGO BANK	94,828	.000	\$-0-
TOTAL COMMISSIONS	4,388,965	.020	\$92,851

EQUITY PORTFOLIO

SHARES	DESCRIPTION	PRICE	FAIR VALUE
13,600	3M COMPANY	86.79	1,180,344
26,600	ABBOTT LABORATORIES	53.55	1,424,430
15,100	ABERCROMBIE & FITCH	72.98	1,101,998
18,600	ADOBE SYSTEMS	40.15	746,790
11,800	AETNA INC	49.40	582,920
25,000	AFLAC INC	51.40	1,285,000
6,400	ALCAN INC	81.30	520,320
6,100	ALLEGHENY TECHNOLOGIES INC	104.88	639,768
19,400	ALLIANZ AG HOLDING	23.27	451,438
39,400	ALLSTATE CORPORATION	61.51	2,423,494
53,000	ALTRIA GROUP INC	70.14	3,717,420
28,900	AMDOCS LTD	39.82	1,150,798
22,600	AMERICAN CAPITAL STRATEGIES LTD	42.52	960,952
56,900	AMERICAN INT'L GROUP	70.03	3,984,707
43,800	AMGEN	55.29	2,421,702
22,300	APACHE CORPORATION	81.59	1,819,457
21,100	APPLE COMPUTER INC	122.04	2,575,044
46,800	APPLIED MATERIALS	19.87	929,916
26,700	ARCH COAL INC	34.80	929,160
33,400	ARCHER-DANIELS-MIDLAND COMPANY	33.09	1,105,206
33,300	AUTOMATIC DATA PROCESSING	48.47	1,614,051
102,300	BANK OF AMERICA CORPORATION	48.89	5,001,447
4,575	BASF AG	130.71	597,998
26,700	BED BATH & BEYOND	35.99	960,933
45,000	BEST BUY CO INC	46.67	2,100,150
43,400	BOEING CO.	96.16	4,173,344
8,325	BROADBRIDGE FINANCIAL SOLUTIONS	19.12	159,174
2,300	BURLINGTON NORTHERN SANTE FE	85.14	195,822
15,840	CANADIAN NATIONAL RAILWAY	50.93	806,731
26,600	CAPITAL ONE FINANCIAL	78.44	2,086,504
15,000	CAREER EDUCATION CORP.	33.77	506,550
5,395	CARLISLE COMPANIES INC	46.51	250,922
1,700	CARPENTER TECHNOLOGY	130.31	221,527
23,100	CELGENE CORP	57.33	1,324,323
18,500	CENTEX CORP	40.10	741,850
5,200	CENTURY TELEPHONE INC	49.05	255,060
8,209	CHATTEM INC	63.38	520,286
14,900	CHESAPEAKE ENERGY	34.60	515,540
51,300	CHEVRON CORP	84.24	4,321,512
23,600	CHICO'S FAS INC	24.34	574,424
23,000	CHINA MOBILE LIMITED	53.90	1,239,700
20,700	CHUBB CORPORATION	54.14	1,120,698
17,800	CIMAREX ENERGY CO	39.41	701,498

SHARES	DESCRIPTION	PRICE	FAIR VALUE
146,600	CISCO SYSTEMS	27.85	4,082,810
123,500	CITIGROUP, INC.	51.29	6,334,315
76,500	CITIZENS COMMUNICATIONS	15.27	1,168,155
48,300	CITRIX SYSTEMS INC	33.67	1,626,261
12,670	CLARCOR INC	37.43	474,238
21,740	COACH INC	47.39	1,030,259
35,000	COCA-COLA CO	52.31	1,830,850
21,600	COLGATE PALMOLIVE CO	64.85	1,400,760
37,600	COMCAST CORP-SPECIAL CLA	27.96	1,051,296
26,500	COMMERCE BANCORP, INC.	36.99	980,235
37,100	CONSTELLATION BRANDS	24.28	900,788
20,200	CONSTELLATION ENERGY GROUP INC	87.17	1,760,834
62,300	CORNING INCORPORATED	25.55	1,591,765
10,840	COVANCE INC	68.56	743,190
11,000	CULLEN/FROST BANKERS	53.47	588,170
69,539	CVS/CAREMARK CORP	36.45	2,534,697
23,400	DELL INC	28.55	668,070
21,800	DOW CHEMICAL	44.22	963,996
39,000	DUKE ENERGY CORPORATION	18.30	713,700
12,400	E.ON AG	55.64	689,936
60,500	EMC CORP	18.10	1,095,050
26,600	EMULEX CORP.	21.84	580,944
17,700	ENDO PHARMACEUTICAL HOLDINGS INC	34.23	605,871
5,600	ENERGEN CORP	54.94	307,664
16,800	EXELON CORP	72.60	1,219,680
14,800	EXPRESS SCRIPTS	50.01	740,148
131,800	EXXON MOBIL CORP	83.88	11,055,384
26,600	FEDEX CORPORATION	110.97	2,951,802
25,600	FISERV INC	56.80	1,454,080
6,200	FMC CORP	89.39	554,218
16,400	FRANKLIN RESOURCES INC	132.47	2,172,508
20,300	GARMIN LIMITED	73.97	1,501,591
20,100	GENENTECH, INC.	75.66	1,520,766
175,100	GENERAL ELECTRIC CO	38.28	6,702,828
26,600	GENZYME CORPORATION	64.40	1,713,040
70,600	GILEAD SCIENCES, INC	38.80	2,739,280
11,600	GLOBAL SANTAFE CORP	72.25	838,100
13,000	GOLDMAN SACHS GROUP INC	216.75	2,817,750
13,400	GRAINGER (W W) INC	93.05	1,246,870
3,400	GUITAR CENTER INC	59.81	203,354
16,750	HARRIS CORPORATION	54.55	913,713
29,580	HARTFORD FINANCIAL SERVICES GROUP	98.51	2,913,926
63,200	HOME DEPOT	39.35	2,486,920
8,300	HOME PROPERTIES INC.	51.93	431,019

Investments Section

SHARES	DESCRIPTION	PRICE	FAIR VALUE
61,300	INTEL CORPORATION	23.74	1,455,262
38,000	INTERNATIONAL BUSINESS MACH.	105.25	3,999,500
4,400	INTUITIVE SURGICAL INC	138.77	610,588
57,800	iSHARES EAFE INDEX ETF	80.77	4,668,506
58,300	iSHARES MSCI EMERGING MARKET ETF	131.65	7,675,195
7,600	ISHARES RUSSELL 3000 INDEX ETF	87.03	661,428
24,800	JACOBS ENGINEERING GROUP INC.	57.51	1,426,248
40,300	JOHNSON & JOHNSON CO	61.62	2,483,286
50,100	JP MORGAN CHASE & CO	48.45	2,427,345
11,700	KELLOGG CO	51.79	605,943
57,000	KING PHARMACEUTICALS INC	20.46	1,166,220
10,000	KOHL'S CORP	71.03	710,300
20,077	KRAFT FOODS INC	35.25	707,714
23,400	LANDSTAR SYSTEMS, INC	48.25	1,129,050
20,900	LEHMAN BROTHERS HOLDINGS	75.80	1,584,220
39,300	LILLY ELI	55.88	2,196,084
23,200	LINEAR TECHNOLOGY CORP	36.18	839,376
19,000	LOCKHEED MARTIN CORP	94.13	1,788,470
25,500	LOGITECH INTERNATIONAL SA	26.39	672,945
15,063	MANITOWOC COMPANY INC.	80.38	1,210,764
24,900	MCAFEE INC	35.20	876,480
28,700	MCDONALDS CORPORATION	50.76	1,456,812
26,700	MERRILL LYNCH & CO INC	83.58	2,231,586
25,000	METLIFE INC.	64.48	1,612,000
47,800	MICROCHIP TECHNOLOGY INC.	37.04	1,770,512
168,600	MICROSOFT CORPORATION	29.47	4,968,642
23,400	NABORS INDUSTRIES, LTD	33.38	781,092
41,300	NOKIA CORPORATION	28.11	1,160,943
15,000	NORDSTROM INC	51.12	766,800
21,514	ODYSSEY HEALTHCARE INC	11.86	255,156
19,000	OLIN CORP.	21.00	399,000
10,000	OMNICOM GROUP	52.92	529,200
16,800	ONEOK INC	50.41	846,888
48,400	PEPSICO INC.	64.85	3,138,740
42,000	PETSMART, INC	32.45	1,362,900
150,100	PFIZER INC.	25.57	3,838,057
15,800	PMI GROUP INC.	44.67	705,786
25,504	POOL CORPORATION	39.03	995,421
8,100	PPL CORP	46.79	378,999
73,100	PROCTER & GAMBLE COMPANY	61.19	4,472,989
16,757	PSYCHIATRIC SOLUTIONS INC	36.26	607,609
48,800	QUALCOMM INCORPORATED	43.39	2,117,432
46,600	QUIKSILVER, INC	14.13	658,458
14,700	RESMED INC	41.26	606,522
13,700	ROBERT HALF INTERNATIONAL	36.50	500,050
18,500	RPM INTERNATIONAL INC	23.11	427,535

SHARES	DESCRIPTION	PRICE	FAIR VALUE
23,300	SANDISK CORPORATION	48.94	1,140,302
21,000	SAP AG	51.07	1,072,470
24,800	SATYAM COMPUTER SERVICES LTD	24.76	614,048
38,700	SCHLUMBERGER LTD	84.94	3,287,178
10,500	SCOTTS CO'A'	42.94	450,870
18,850	SEALED AIR	31.02	584,727
23,960	SEI INVESTMENTS COMPANY	29.04	695,798
8,900	SEMPRA ENERGY	59.23	527,147
4,800	SOVRAN SELF STORAGE	48.16	231,168
19,500	SPECTRA ENERGY CORP	25.96	506,220
12,800	SPRINT NEXTEL CORPORATION	20.71	265,088
59,500	STAPLES, INC.	23.73	1,411,935
10,200	STERICYCLE INC	44.46	453,492
25,600	STRATEGIC HOTELS & RESORTS	22.49	575,744
17,700	SUPERIOR ENERGY SERVICES	39.92	706,584
32,200	T. ROWE PRICE GROUP INC	51.89	1,670,858
8,400	TARGET CORP	63.60	534,240
53,300	TELE NORTE LESTE PARTICIPACOES SA	18.97	1,011,101
31,600	TELEFONES DE MEXICO	37.89	1,197,324
42,000	TEVA PHARMACEUTICAL INDUSTRIES LTD	41.25	1,732,500
75,800	TEXAS INSTRUMENTS	37.63	2,852,354
21,000	TOTAL SA	80.98	1,700,580
15,000	TRINITY INDUSTRIES INC	43.54	653,100
22,300	UNITED TECHNOLOGIES CORP	70.93	1,581,739
8,700	URS CORP	48.55	422,385
4,850	VALERO ENERGY CORPORATION	73.86	358,221
41,800	VANGUARD EMERGING MARKETS ETF	91.29	3,815,922
23,200	VANGUARD SMALL CAP VALUE ETF	74.83	1,736,056
94,903	VANGUARD SMALL CAP VALUE MUTUAL FUND	17.94	1,702,558
64,675	VANGUARD TOTAL STOCK MARKET ETF	149.38	9,661,152
22,600	VARIAN MEDICAL SYSTEMS INC	42.51	960,726
59,900	VERIZON COMMUNICATIONS	41.17	2,466,083
19,000	VERTEX PHARMACEUTICALS	28.56	542,640
39,200	WACHOVIA CORP	51.25	2,009,000
33,400	WALGREEN COMPANY	43.54	1,454,236
18,320	WAL-MART STORES	48.11	881,375
26,300	WELLPOINT INC	79.83	2,099,529
48,100	WESTERN DIGITAL CORP	19.35	930,735
34,000	YUM BRANDS INC.	32.72	1,112,480
TOTAL EQUITY PORTFOLIO			270,935,457

Investments Section

EQUITY ACQUIRED

July 1, 2006 Through June 30, 2007

Description	Shares	Div Rate	Income	Yield	Avg Cost	Cost
3M COMPANY	13,600	0.48	6,528	0.63	76.32	1,037,914
AFFILIATED COMPUTER SERVICES	200	-	0	0.00	51.33	10,266
AFLAC INC	25,000	0.21	5,125	0.45	45.84	1,145,986
ALLEGHENY TECHNOLOGIES INC	6,100	0.13	793	0.13	97.82	596,721
ALLIANZ AG HOLDING	26,550	0.41	10,786	2.54	16.02	425,255
ALTRIA GROUP INC	53,000	0.69	36,570	0.85	81.22	4,304,648
AMDOCS LTD	10,000	-	0	0.00	35.37	353,732
APPLE COMPUTER INC	21,300	-	0	0.00	86.46	1,841,615
ARCH COAL INC	27,000	0.07	1,890	0.22	31.72	856,490
ARCHER-DANIELS-MIDLAND COMPANY	33,500	0.12	3,853	0.37	31.05	1,040,244
ARRIS GROUP	52,000	-	0	0.00	11.41	593,510
BASF AG	1,500	3.22	4,827	3.93	81.95	122,923
BJ SERVICES COMPANY	2,000	-	0	0.00	32.08	64,158
BOEING CO.	21,200	0.35	7,420	0.41	86.36	1,830,837
BURLINGTON NORTHERN SANTE FE	100	0.25	25	0.32	76.99	7,699
CAREER EDUCATION CORP.	30,500	-	0	0.00	25.77	785,954
CARLISLE COMPANIES INC	12,600	0.14	1,701	0.16	82.40	1,038,300
CARPENTER TECHNOLOGY	1,800	0.30	540	0.28	108.06	194,500
CELGENE CORP	23,500	-	0	0.00	56.70	1,332,543
CENTEX CORP	18,500	0.04	740	0.08	48.51	897,492
CHESAPEAKE ENERGY	200	0.07	14	0.22	30.23	6,046
CHEVRON CORP	8,000	0.58	4,640	0.89	64.96	519,694
CHINA MOBILE LIMITED	23,000	0.53	12,226	1.16	45.73	1,051,763
CIMAREX ENERGY CO	10,500	0.04	420	0.09	42.36	444,782
CITRIX SYSTEMS INC	36,800	-	0	0.00	30.24	1,112,728
COACH INC	10,000	-	0	0.00	28.52	285,198
COCA-COLA CO	8,500	0.34	2,890	0.64	53.31	453,118
CONSTELLATION BRANDS	400	-	0	0.00	19.25	7,700
CORNING INCORPORATED	62,300	0.05	3,115	0.23	21.67	1,350,186
CULLEN/FROST BANKERS	14,500	0.40	5,800	0.74	54.22	786,190
D. R. HORTON	10,500	0.15	1,575	0.59	25.43	267,058
DOW CHEMICAL	100	0.42	42	0.99	42.42	4,242
E.ON AG	12,500	1.51	18,904	4.08	37.02	462,804
EMULEX CORP.	200	-	0	0.00	17.75	3,550
ENDO PHARMACEUTICAL HOLDINGS INC	5,700	-	0	0.00	29.53	168,317
GARMIN LIMITED	20,300	0.50	10,150	1.01	45.62	926,172
GENERAL ELECTRIC CO	175,500	0.28	49,140	0.81	34.62	6,076,406
HARRIS CORPORATION	37,800	0.11	4,158	0.26	42.69	1,613,704
HOME PROPERTIES INC.	8,400	0.65	5,460	1.10	59.01	495,704
INDYMAC BANCORP INC	8,500	-	0	0.00	46.39	394,355
INTUITIVE SURGICAL INC	12,400	-	0	0.00	93.85	1,163,779
iSHARES EAFE INDEX ETF	57,800	1.53	88,634	1.91	80.18	4,634,559
iSHARES MSCI EMERGING MARKET ETF	58,500	1.57	91,992	1.36	115.35	6,748,194

Investments Section

Description	Shares	Div Rate	Income	Yield	Avg Cost	Cost
ISHARES RUSSELL 3000 INDEX ETF	7,600	0.33	2,477	0.37	88.04	669,086
JACKSON HEWITT TAX SERVICE INC	300	-	0	0.00	32.64	9,791
JP MORGAN CHASE & CO	10,500	0.38	3,990	0.75	50.90	534,498
KELLOGG CO	11,800	0.29	3,434	0.58	50.05	590,600
KING PHARMACEUTICALS INC	57,000	-	0	0.00	18.20	1,037,182
LABORATORY CORP OF AMERICA HOLDINGS	6,600	-	0	0.00	79.03	521,585
LINEAR TECHNOLOGY CORP	13,200	0.18	2,376	0.57	31.74	419,025
LOCKHEED MARTIN CORP	19,200	0.35	6,720	0.39	88.90	1,706,944
LOGITECH INTERNATIONAL SA	38,000	-	0	0.00	28.98	1,101,334
MANITOWOC COMPANY INC.	10,300	0.04	361	0.08	43.83	451,435
MCAFEE INC	7,700	-	0	0.00	24.26	186,807
MCDONALDS CORPORATION	29,000	1.00	29,000	2.80	35.73	1,036,112
MERRILL LYNCH & CO INC	5,500	0.35	1,925	0.38	91.68	504,216
MICROCHIP TECHNOLOGY INC.	21,200	0.28	5,936	0.88	31.70	672,071
NORDSTROM INC	5,000	0.14	675	0.29	46.47	232,344
ODYSSEY HEALTHCARE INC	38,000	-	0	0.00	13.18	501,024
PETSMART, INC	21,000	0.03	630	0.11	27.04	567,938
PFIZER INC.	24,000	0.29	6,960	1.23	23.56	565,530
PMI GROUP INC.	16,000	0.05	840	0.11	46.82	749,153
PPL CORP	8,100	0.31	2,471	0.86	35.64	288,659
PSYCHIATRIC SOLUTIONS INC	16,100	-	0	0.00	38.00	611,826
QUALCOMM INCORPORATED	26,500	0.14	3,710	0.38	37.06	982,139
RESMED INC	8,600	-	0	0.00	41.41	356,153
ROBERT HALF INTERNATIONAL	2,500	0.10	250	0.27	36.90	92,245
RPM INTERNATIONAL INC	6,000	0.18	1,050	0.92	19.01	114,083
SANDISK CORPORATION	23,500	-	0	0.00	42.94	1,009,035
SAP AG	21,000	0.62	13,016	1.28	48.37	1,015,810
SATYAM COMPUTER SERVICES LTD	12,550	0.04	447	0.10	34.78	436,499
SCHLUMBERGER LTD	38,900	0.18	6,808	0.28	62.39	2,427,096
SCOTTS CO'A'	3,500	0.13	438	0.29	43.42	151,970
SPRINT NEXTEL CORPORATION	24,000	0.03	600	0.13	18.88	453,068
STAPLES, INC.	17,000	0.29	4,930	1.09	26.59	452,028
TARGET CORP	8,500	0.14	1,190	0.25	56.76	482,435
TELE NORTE LESTE PARTICIPACOES SA	53,300	0.04	2,058	0.29	13.54	721,731
TEVA PHARMACEUTICAL INDUSTRIES LTD	42,000	0.08	3,499	0.24	34.85	1,463,734
TEXAS INSTRUMENTS	23,000	0.08	1,840	0.26	30.29	696,644
TOTAL SA	21,000	1.14	23,990	1.75	65.22	1,369,629
TRINITY INDUSTRIES INC	15,000	0.06	900	0.18	33.83	507,495
UNITED TECHNOLOGIES CORP	22,300	0.32	7,136	0.51	62.62	1,396,532
VALERO ENERGY CORPORATION	100	0.12	12	0.21	57.84	5,784
VANGUARD EMERGING MARKETS ETF	42,100	1.34	56,372	1.82	73.58	3,097,928
VANGUARD SMALL CAP VALUE ETF	23,300	0.06	1,351	0.08	71.07	1,655,911
VANGUARD SMALL CAP VALUE MUTUAL FUND	94,903	0.32	30,654	1.90	17.04	1,617,428
VANGUARD TOTAL STOCK MARKET ETF	64,675	0.57	36,929	0.38	150.96	9,763,545
VARIAN MEDICAL SYSTEMS INC	22,600	-	0	0.00	46.05	1,040,652

Investments Section

Description	Shares	Div Rate	Income	Yield	Avg Cost	Cost
VCA ANTECH, INC.	7,000	-	0	0.00	32.12	224,831
VERTEX PHARMACEUTICALS	19,000	-	0	0.00	29.75	565,210
WACHOVIA CORP	12,500	0.56	7,000	1.04	53.94	674,305
WAL-MART STORES	300	0.22	66	0.46	48.04	14,412
WESTERN DIGITAL CORP	49,000	-	0	0.00	20.37	997,958
YUM BRANDS INC.	17,000	0.15	2,550	0.25	59.80	1,016,631
TOTAL EQUITIES ACQUIRED	2,050,078		654,544		46.45	95,217,112

EQUITY SOLD JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Shares	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
ABBOTT LABORATORIES	200	52.8700	2,129	8,445	396.57%
ADOBE SYSTEMS	14,700	35.4752	255,994	265,196	103.59%
ADVANCED MICRO DEVICES	20,000	24.8170	577,498	(81,573)	-14.13%
AETNA INC	41,500	42.6007	856,734	910,343	106.26%
AFFILIATED COMPUTER SERVICES	20,500	57.1864	1,115,764	56,202	5.04%
ALBERTO CULVER CO	13,400	30.2640	438,128	(32,947)	-7.52%
ALCAN INC	7,100	81.2988	260,949	316,194	121.17%
ALLIANZ AG HOLDING	7,150	22.7713	114,523	48,224	42.11%
ALLSTATE CORPORATION	27,300	61.9983	649,071	1,042,812	160.66%
ALLTEL CORPORATION	16,700	62.7662	810,293	237,620	29.33%
ALTERA CORPORATION	33,500	17.3369	682,846	(102,747)	-15.05%
AMDOCS LTD	400	34.1000	13,712	(72)	-0.53%
AMERICAN CAPITAL STRATEGIES LTD	10,800	46.9919	372,440	134,959	36.24%
AMERICAN EXPRESS	16,700	58.5486	511,058	466,340	91.25%
AMERICAN INT'L GROUP	200	69.7400	8,405	5,543	65.95%
AMERICAN STANDARD COMPANY INC	30000	39.5434	765,643	419,891	54.84%
AMGEN	19,800	59.7544	768,386	414,216	53.91%
ANALOG DEVICES, INC.	11,800	33.1856	894,136	(502,794)	-56.23%
ANHEUSER BUSCH COMPANY	8,400	48.8280	436,049	(26,074)	-5.98%
APACHE CORPORATION	14,300	64.5312	329,917	592,567	179.61%
APPLE COMPUTER INC	200	88.1900	17,076	562	3.29%
APPLIED MATERIALS	200	18.1800	3,390	246	7.26%
ARACRUZ CELULOSE SA	7,000	50.2070	364,442	(13,284)	-3.65%
ARCH COAL INC	300	30.0500	9,517	(502)	-5.27%
ARCHER-DANIELS-MIDLAND COMPANY	100	32.9600	3,105	191	6.14%
ARRIS GROUP	52,000	13.4909	593,510	107,092	18.04%
AUTOMATIC DATA PROCESSING	100	48.8000	3,981	899	22.60%
AUTOZONE INC	6,700	118.6704	585,916	209,017	35.67%
BALL CORP	7,900	40.3879	328,135	(9,239)	-2.82%
BANK OF AMERICA CORPORATION	24,700	52.2270	692,686	596,939	86.18%
BASF AG	1,425	123.3538	111,055	64,708	58.27%
BEAR STEARNS COMPANY	10,100	159.2312	913,850	694,054	75.95%

Investments Section

Description	Shares	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
BED BATH & BEYOND	6,900	40.7135	269,386	11,261	4.18%
BEST BUY CO INC	100	46.5200	3,476	1,176	33.84%
BJ SERVICES COMPANY	25,400	30.8873	509,634	274,372	53.84%
BOEING CO.	100	87.8200	6,660	2,122	31.86%
BURLINGTON NORTHERN SANTE FE	18,800	79.0442	860,196	625,395	72.70%
CACI INTERNATIONAL	6,200	48.7504	374,916	(72,796)	-19.42%
CANADIAN NATIONAL RAILWAY	14,460	42.9344	230,318	390,122	169.38%
CAPITAL ONE FINANCIAL	200	75.8600	16,945	(1,773)	-10.46%
CAREER EDUCATION CORP.	15,500	35.3562	399,419	148,443	37.16%
CARLISLE COMPANIES INC	19,805	45.9365	816,013	93,548	11.46%
CARPENTER TECHNOLOGY	100	113.9900	10,806	593	5.49%
CELGENE CORP	400	51.2400	22,682	(2,186)	-9.64%
CENTURY TELEPHONE INC	29,900	43.2449	1,000,574	291,988	29.18%
CEPHALON INC	6,000	55.2090	455,178	(124,054)	-27.25%
CHATTEM INC	8,891	61.8843	330,233	219,888	66.59%
CHECK POINT SOFTWARE TECHNOLOGIES LTD	11,700	16.5901	221,448	(27,584)	-12.46%
CHESAPEAKE ENERGY	7,000	33.0527	221,946	9,275	4.18%
CHEVRON CORP	200	67.6700	10,508	3,026	28.80%
CHICO'S FAS INC	8,500	18.9764	257,535	(96,409)	-37.44%
CIMAREX ENERGY CO	4,200	40.5156	169,223	900	0.53%
CISCO SYSTEMS	13,900	18.2206	136,872	115,867	84.65%
CITIGROUP, INC.	500	50.5800	20,216	5,074	25.10%
CITIZENS COMMUNICATIONS	400	14.8100	5,012	912	18.20%
CLARCOR INC	5,730	36.7560	181,708	28,843	15.87%
COACH INC	18,760	51.3668	565,527	397,812	70.34%
COCA-COLA CO	100	46.9300	4,983	(290)	-5.81%
COLGATE PALMOLIVE CO	100	66.5900	5,272	1,387	26.31%
COMCAST CORP-SPECIAL CL A	200	25.7300	4,326	820	18.96%
COMMERCE BANCORP, INC.	100	33.4700	2,142	1,205	56.28%
COMMUNITY HEALTH SYSTEMS INC	26,800	33.7229	1,061,615	(158,941)	-14.97%
CONSTELLATION BRANDS	14,000	27.7364	217,487	170,530	78.41%
CON-WAY INC.	20,000	50.0545	970,153	30,427	3.14%
COVANCE INC	10,960	67.6226	473,507	267,517	56.50%
CULLEN/FROST BANKERS	3,500	52.9466	189,770	(4,494)	-2.37%
CVS/CAREMARK CORP	200	31.3000	5,438	822	15.12%
D. R. HORTON	22,200	21.9257	487,389	(1,058)	-0.22%
DANAHER CORP.	13,300	71.7400	769,226	184,484	23.98%
DEAN FOODS	35,000	44.0541	877,120	663,766	75.68%
DELL INC	10,000	21.1003	385,428	(174,632)	-45.31%
DENTSPLY INTERNATIONAL INC	36,800	31.9946	1,048,079	128,594	12.27%
DEVON ENERGY CORPORATION	8,700	58.9330	362,276	150,251	41.47%
DOW CHEMICAL	8,500	39.6275	361,842	(25,358)	-7.01%
DUKE ENERGY CORPORATION	200	19.5500	3,184	726	22.80%
E.ON AG	100	42.7100	3,702	569	15.36%
EMC CORP	26,400	15.4459	330,735	76,771	23.21%
EXELON CORP	100	64.8100	4,940	1,541	31.20%

Investments Section

Description	Shares	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
EXPRESS SCRIPTS	19,500	67.1717	194,881	1,114,537	571.91%
EXXON MOBIL CORP	500	71.0000	17,127	18,373	107.28%
FEDEX CORPORATION	200	112.5700	14,097	8,417	59.71%
FISERV INC	14,500	48.3996	558,080	143,409	25.70%
FLEXTRONICS INTERNATIONAL	70,400	11.0918	972,983	(193,553)	-19.89%
FMC CORP	5,600	87.6464	281,106	209,650	74.58%
FORTUNE BRANDS, INC.	26,700	80.6184	1,551,171	600,544	38.72%
FRANKLIN RESOURCES INC	3,700	118.6003	190,625	248,109	130.16%
GANNETT COMPANY	13,500	52.5159	988,617	(279,944)	-28.32%
GENENTECH, INC.	100	82.2800	3,715	4,513	121.49%
GENERAL ELECTRIC CO	400	34.7200	13,726	162	1.18%
GENZYME CORPORATION	100	60.4800	5,759	289	5.02%
GILEAD SCIENCES, INC	14,600	69.5335	254,417	760,161	298.79%
GLOBALSANTAFE CORP	18,500	51.6393	638,830	315,929	49.45%
GOLDMAN SACHS GROUP INC	2,000	187.1962	238,655	135,686	56.85%
GUITAR CENTER INC	23,400	49.6235	1,200,622	(39,755)	-3.31%
HARRIS CORPORATION	21,050	51.3571	898,637	182,209	20.28%
HARTFORD FINANCIAL SERVICES GROUP	7,820	102.4209	401,228	399,616	99.60%
HERSHEY FOODS CORPORATION	13,500	53.1280	708,516	8,421	1.19%
HOME DEPOT	200	38.8000	2,653	5,107	192.46%
HOME PROPERTIES INC.	100	55.9000	5,901	(311)	-5.27%
HYDRIL	5,300	67.0980	321,424	33,972	10.57%
IDEARC INC	3,005	35.8551	74,537	33,146	44.47%
INDYMAC BANCORP INC	26,500	38.0746	1,181,223	(173,048)	-14.65%
INGERSOLL-RAND 'A'	44,200	41.9682	1,645,266	208,659	12.68%
INTEL CORPORATION	23,600	17.7455	689,144	(270,824)	-39.30%
INTERNATIONAL BUSINESS MACH.	7,200	73.8712	363,372	168,205	46.29%
INTUITIVE SURGICAL INC	8,000	128.3798	750,825	275,969	36.76%
iSHARES MSCI EMERGING MARKET ETF	200	109.8600	22,093	(121)	-0.55%
JABIL CIRCUIT	25,600	23.9522	592,813	19,461	3.28%
JACKSON HEWITT TAX SERVICE INC	300	36.1573	9,791	1,050	10.72%
JACOBS ENGINEERING GROUP INC.	21,900	57.3797	356,089	900,290	252.83%
JOHNSON & JOHNSON CO	20,000	62.1103	1,128,158	113,609	10.07%
JP MORGAN CHASE & CO	600	48.5200	22,346	6,766	30.28%
KELLOGG CO	100	49.3800	5,005	(67)	-1.34%
KOHL'S CORP	100	70.7200	4,832	2,240	46.36%
KRAFT FOODS INC	16,600	31.6144	464,475	60,079	12.93%
LABORATORY CORP OF AMERICA HOLDINGS	6,600	79.0938	521,585	361	0.07%
LANDSTAR SYSTEMS, INC	47,200	44.7289	603,424	1,506,801	249.71%
LEHMAN BROTHERS HOLDINGS	9,200	75.4624	385,962	308,087	79.82%
LENNAR CORP Class A	10,000	52.9815	269,737	259,661	96.26%
LILLY ELI	100	52.2300	5,691	(468)	-8.23%
LOCKHEED MARTIN CORP	200	96.9000	17,781	1,599	8.99%
LOGITECH INTERNATIONAL SA	12,500	26.8551	362,281	(26,722)	-7.38%
MANITOWOC COMPANY INC.	3,437	76.8982	110,718	153,544	138.68%
MCAFEE INC	2,800	34.9718	79,687	18,206	22.85%

Investments Section

Description	Shares	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
MCDONALDS CORPORATION	300	43.1000	10,718	2,212	20.63%
MEDTRONIC, INC.	5,000	47.0300	240,188	(5,145)	-2.14%
MERRILL LYNCH & CO INC	7,200	85.4590	569,326	45,844	8.05%
METLIFE INC.	100	62.2300	5,007	1,216	24.29%
MICROSOFT CORPORATION	36,100	30.0541	1,271,691	(187,482)	-14.74%
MOTOROLA INC	48,400	20.8441	1,137,036	(129,742)	-11.41%
MOVADO GROUP INC	17,400	29.7152	363,558	153,064	42.10%
MYLAN LABORATORIES	26,400	20.4123	565,827	(27,487)	-4.86%
NABORS INDUSTRIES, LTD	43,200	31.5536	1,178,749	182,955	15.52%
NOKIA CORPORATION	100	21.4500	1,589	556	34.96%
ODYSSEY HEALTHCARE INC	16,486	12.5281	217,365	(10,995)	-5.06%
OLIN CORP.	1,000	19.6680	20,862	(1,203)	-5.77%
ONEOK INC	100	40.8700	2,809	1,278	45.49%
PEPSICO INC.	11,600	64.7089	543,245	206,896	38.09%
PETCO ANIMAL SUPPLIES INC	19,500	28.3200	452,523	99,110	21.90%
PETSMART, INC	700	29.4400	17,517	3,091	17.64%
PFIZER INC.	900	25.1900	25,447	(2,776)	-10.91%
PMI GROUP INC.	200	45.1900	9,364	(326)	-3.49%
POOL CORPORATION	27,896	39.0824	333,610	756,305	226.70%
POWERWAVE TECHNOLOGIES INC	63000	6.6989	759,470	(339,170)	-44.66%
PROCTER & GAMBLE COMPANY	200	62.9400	9,369	3,219	34.36%
PSYCHIATRIC SOLUTIONS INC	12,743	36.2262	401,707	59,794	14.88%
QUALCOMM INCORPORATED	18,000	44.0473	705,805	86,788	12.30%
QUIKSILVER, INC	100	13.5900	975	384	39.38%
REGIONS FINANCIAL CORP	9,728	34.6992	269,053	68,301	25.39%
RESPIRONICS INC	4,500	34.7896	154,217	2,241	1.45%
ROBERT HALF INTERNATIONAL	500	38.4400	19,123	97	0.50%
RPM INTERNATIONAL INC	5,800	22.9533	107,222	25,848	24.11%
SALLY BEAUTY HOLDINGS INC	9600	7.7800	48,525	25,969	53.52%
SANDISK CORPORATION	200	38.6400	8,588	(860)	-10.01%
SATYAM COMPUTER SERVICES LTD	300	21.9000	5,217	1,353	25.93%
SCHLUMBERGER LTD	200	63.2800	12,479	177	1.42%
SCHOLASTIC CORPORATION	7,500	29.0199	195,886	21,486	10.97%
SCOTTS CO'A'	100	41.4300	4,080	63	1.54%
SEALED AIR	7,650	31.6296	201,681	40,206	19.94%
SEI INVESTMENTS COMPANY	20,620	59.0165	776,312	440,277	56.71%
SEMPRA ENERGY	12,700	57.7427	431,456	301,354	69.85%
SKYWEST INC	11,800	25.9013	233,259	72,131	30.92%
SMITH INTERNATIONAL INC	11,700	43.2425	379,548	126,140	33.23%
SPECTRA ENERGY CORP	100	25.1400	2,295	219	9.53%
SPRINT NEXTEL CORPORATION	50,000	20.1215	963,739	41,286	4.28%
ST. JUDE MEDICAL	46,800	36.8549	942,501	780,949	82.86%
STAPLES, INC.	100	25.1700	1,777	740	41.66%
STEAK N SHAKE	4,800	14.3206	89,328	(20,687)	-23.16%
STERICYCLE INC	14,800	64.1691	793,870	155,547	19.59%
STRATEGIC HOTELS & RESORTS	6,300	23.1978	131,428	14,655	11.15%

Investments Section

Description	Shares	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
SUPERIOR ENERGY SERVICES	100	32.2700	2,451	776	31.65%
SYSCO CORPORATION	23,400	35.3004	696,118	129,496	18.60%
T. ROWE PRICE GROUP INC	28,000	51.1284	554,112	877,118	158.29%
TARGET CORP	100	60.7300	5,676	397	7.00%
TELEFONES DE MEXICO	100	29.4500	2,296	649	28.27%
TEXAS INSTRUMENTS	500	31.3500	13,193	2,482	18.81%
TYCO INTERNATIONAL LTD.	31,900	25.5829	1,028,453	(213,020)	-20.71%
UGI CORP	11,200	24.8786	232,119	46,065	19.85%
UNITED NATURAL FOODS	20,500	30.7836	647,895	(17,260)	-2.66%
UNITED PARCEL SERVICE	26,700	73.5628	1,956,512	6,916	0.35%
URS CORP	3,700	49.0390	149,662	31,744	21.21%
UTI WORLDWIDE INC	15,000	23.3383	349,919	(155)	-0.04%
VALERO ENERGY CORPORATION	22,250	66.6573	939,302	543,498	57.86%
VANGUARD EMERGING MARKETS ETF	300	74.5000	22,076	275	1.24%
VANGUARD SMALL CAP VALUE ETF	100	70.7500	7,107	(32)	-0.45%
VCA ANTECH, INC.	15,600	32.3711	425,211	79,451	18.69%
VERIZON COMMUNICATIONS	200	36.4800	6,518	778	11.94%
VISHAY INTERTECHNOLOGY INC	15,200	15.5504	396,653	(160,598)	-40.49%
VORNADO REALTY TRUST	15,000	109.3395	637,362	1,002,381	157.27%
WACHOVIA CORP	200	54.7000	10,193	747	7.32%
WALGREEN COMPANY	9,800	48.8500	146,574	331,945	226.47%
WAL-MART STORES	52,180	48.2821	2,799,302	(280,973)	-10.04%
WASTE CONNECTIONS	6,400	37.4462	181,458	58,063	32.00%
WELLPOINT INC	100	80.0800	5,544	2,464	44.44%
WESTERN DIGITAL CORP	900	18.2900	18,330	(1,869)	-10.20%
WILLIAMS COMPANIES, INC.	23,400	26.5101	570,078	49,771	8.73%
WINDSTREAM CORPORATION	17,266	13.1442	179,542	47,053	26.21%
WINNEBAGO INDUSTRIES INC	10,000	29.2808	356,976	(64,377)	-18.03%
TOTAL EQUITIES SOLD	2,370,212		74,240,953	22,145,167	29.83%

BOND PORTFOLIO

JUNE 30, 2007

Par Value	Description	Coupon	Fair Value
U.S. TREASURY OBLIGATIONS			
150,000	U.S. TREASURY BDS 2.00% 01/15/2026	2.000	135,867
1,000,000	U.S. TREASURY BOND 7.500 11/15/2016	7.500	1,179,300
1,000,000	U.S. TREASURY BOND 9.000 11/15/2018	9.000	1,329,610
2,000,000	U.S. TREASURY BOND 9.125 05/15/2018	9.125	2,661,560
1,000,000	U.S. TREASURY BOND 8.000 11/15/2021	8.000	1,279,450
200,000	U.S. TREASURY BONDS 4.50% 02/15/2036	4.500	181,094
250,000	U.S. TREASURY INFL IDX N/B 2012	3.000	292,826
200,000	U.S. TREASURY NOTE 4.875% 06/30/2009	4.875	199,750
200,000	U.S. TREASURY NTS 4.50% 04/30/2009	4.500	198,640

Par Value	Description	Coupon	Fair Value
200,000	U.S. TREASURY NTS 4.50% 05/15/2017	4.500	191,750
320,000	U.S. TREASURY NTS 4.875% 05/31/2009	4.875	319,901
600,000	U.S. TREASURY NTS INFL IX N/B	1.875	602,432
200,000	U.S. TREASURY NTS TIPS 2.00% 04/15/2012	2.000	194,110
250,000	U.S. TREASURY WI INFL IDX N/B	0.875	258,961
7,570,000	TOTAL U.S. TREASURY OBLIGATIONS		9,025,251

FEDERAL AGENCY OBLIGATIONS

73,000	FED HM LN MTG 5.0 6/18/18	5.000	68,576
150,000	FED HM LN MTG 6.25 4/7/21	6.250	147,983
200,000	FED HM LN MTG 5.00% 02/15/2025	5.000	185,500
317,530	FED HOME LN 6.00 11/01/2036 3128N5R76	6.000	312,990
293,575	FED HOME LN 6.00 11/01/2036 3128N0CE8	6.000	289,378
488,962	FED HOME LN MTG 6.50% 10/01/2036	6.500	492,204
282,302	FED HOME LOAN MTG CORP PARTN	6.500	284,174
932,845	FED NATL MTG ASSN 6.50% 11/01/2036	6.500	938,153
200,000	FEDERAL FARM CR 5.85% 05/16/2017	5.850	197,000
200,000	FEDERAL FARM CR BKS CONS SYST	5.300	194,438
400,000	FEDERAL FARM CR BKS CONS SYSTEM	5.150	386,876
1,100,000	FEDERAL FARM CREDIT 5.5%	5.500	1,057,034
800,000	FEDERAL FARM CREDIT BANK	5.300	757,248
400,000	FEDERAL FARM CREDIT BK CONST SYST 5.40%	5.400	390,000
200,000	FEDERAL FARM CREDIT BKS 00719	5.000	195,312
187,096	FEDERAL HOME LN 6.00% 12/01/2036	6.000	185,507
395,216	FEDERAL HOME LN 6.50 10/01/36	6.500	397,837
400,000	FEDERAL HOME LN BKS 5.33% 7/23/18	5.330	382,252
600,000	FEDERAL HOME LN BKS 5.375 07/07/15	5.375	585,000
160,000	FEDERAL HOME LN MTG 6.00% 01/26/2022	6.000	156,323
192,096	FEDERAL HOME LN MTG 6.50% 04/01/2037	6.500	194,377
120,000	FEDERAL HOME LOAN BANK 5.125% 7/10/2023	5.125	110,587
454,000	FEDERAL HOME LOAN BK #00710	6.000	451,757
350,000	FEDERAL HOME LOAN BKS 00218	5.150	344,096
300,000	FEDERAL HOME LOAN BKS 5.35% 2015	5.350	291,843
300,000	FEDERAL HOME LOAN BKS TR #00575	5.650	289,500
2,450,000	FEDERAL HOME LOAN BKS TR#00553 5.38%	5.380	2,332,866
400,000	FEDERAL HOME LOAN BKS TR#00766	5.250	388,124
422,000	FEDERAL HOME LOAN MTG CORP FHR 3159 PB	6.000	422,439
400,000	FEDERAL HOME LOAN MTG MED TERM NOTE	5.400	389,764
1,198,511	FEDERAL NATL MTG ASSN 6.00% 10/01/36	6.000	1,181,360
248,329	FEDERAL NATL MTG ASSN 6.50% 10/01/36	6.500	249,742
400,000	FHR 3172 PC	6.000	398,416
298,503	FNMA 4.40 12/25/12	4.400	286,383
529,868	FNMA 4.45 08/25/12	4.450	508,398
682,000	FNMA 5.00 11/15/12	5.000	665,591
250,000	FNMA 5.00 11/25/21	5.000	231,210

Investments Section

Par Value	Description	Coupon	Fair Value
1,200,000	FNMA 6.00 05/24/19	6.000	1,182,000
1,050,000	FNMA 5.25% 7/14/2015	5.250	1,019,162
579,530	FNMA FNR 2003-42 EP	4.000	546,821
150,000	FNMA FNR 2005-27 AB	5.500	146,655
311,000	FNMA FNR 2005-27 AC	5.500	293,643
686,140	FNMA FNR 2005-45 BG	4.500	628,470
90,000	FNMA GTD REMI 5.50% 2031	5.500	87,900
150,000	FNR 2006-60 PC	6.000	149,079
720,000	FREDDIE MAC 5.000 08/10/2012	5.000	703,915
500,000	FREDDIE MAC 5.250 07/28/2015	5.250	485,155
300,000	FREDDIE MAC 6.000 06/01/2036	6.000	299,310
202,000	FREDDIE MAC 5.00% 12/14/2018	5.000	189,817
250,000	FREDDIE MAC 6.00% 12/15/2006	6.000	249,010
300,000	GNMA 2003-012RE 5.50% 2031	5.500	296,385
450,000	GNMA 2003-034PC 5.50% 2032	5.500	443,610
43,550	GNMA Pool #157733	9.000	46,607
37,713	GNMA Pool #158992	9.000	40,361
28,148	GNMA Pool #165863	9.000	30,124
15,643	GNMA Pool #181945	9.000	16,825
3,005	GNMA Pool #182127	9.000	3,216
71,267	GNMA Pool #207671	9.000	76,424
6,736	GNMA Pool #208705	9.000	7,245
19,165	GNMA Pool #227210	9.000	20,516
4,894	GNMA Pool #229798	9.000	5,238
12,525	GNMA Pool #234695	10.000	13,810
51,446	GNMA Pool #235280	9.000	55,168
18,502	GNMA Pool #250933	9.000	19,841
9,663	GNMA Pool #252306	9.000	10,362
19,705	GNMA Pool #252538	9.000	21,130
4,608	GNMA Pool #262845	9.000	4,956
60,230	GNMA Pool #377589	7.500	63,124
64,878	GNMA Pool #390014	7.000	67,611
317,174	GNMA Pool #391992	7.000	330,533
49,372	GNMA Pool #398831	8.000	52,369
34,913	GNMA Pool #403979	8.500	37,653
30,462	GNMA Pool #406811	7.500	31,927
52,656	GNMA Pool #427558	7.500	55,189
43,270	GNMA Pool #432701	8.000	45,896
371,339	GNMA Pool #434237	6.000	370,771
6,700	GNMA Pool #439645	8.000	7,107
14,668	GNMA Pool #441619	7.500	15,367
15,235	GNMA Pool #458918	7.000	15,883
91,610	GNMA Pool #472997	7.000	95,501
35,041	GNMA Pool #486761	7.000	36,529
141,260	GNMA Pool #499907	7.000	147,261

Par Value	Description	Coupon	Fair Value
145,045	GNMA Pool #507496	7.000	151,206
84,393	GNMA Pool #510958	7.000	87,978
38,842	GNMA Pool #513367	7.000	40,492
90,624	GNMA Pool #530611	6.500	92,521
158,715	GNMA Pool #530631	6.500	162,037
135,089	GNMA Pool #539629	6.500	137,916
125,973	GNMA Pool #548963	6.500	128,610
190,871	GNMA Pool #552514	6.500	194,696
114,886	GNMA Pool #780220	7.500	120,297
300,000	GNR 2006-41 VB 6.00% 03/20/24	6.000	296,823
26,774,317	TOTAL FEDERAL AGENCY OBLIGATIONS		26,218,290

CORPORATE BONDS

99,641	ACA ABS 2006-1 A-3L LTD	6.890	99,641
281,500	AGRIUM INC DEB 7.125 5/23/36	7.125	291,772
350,000	ALBERTSON'S INC DEBS 8.70% 2030	8.700	384,349
120,000	ALCOA INC NT 5.95% 02/01/2037	5.950	111,666
380,000	ALLTEL CORP 7.875% 07/01/2032	7.875	321,921
150,000	ANADARKO FINANCE SR NT	7.500	161,166
497,000	AT&T BROADBAND CORP	9.455	630,768
1,000,000	BANC ONE CORP	8.000	1,194,590
2,000,000	BAYER HYPO-VEREINSBANK	8.741	2,441,500
500,000	BAYERISCHE LANDESBANK	0.000	422,550
500,000	BEAR STEARNS CO INC	0.000	500,000
350,000	BELL ATLANTIC MARYLAND 2023	7.150	362,478
902,541	CBO HOLDINGS III LTD.	7.000	902,541
737,158	CBO HOLDINGS SPIRIT 2004-3A	6.500	737,158
846,000	CHARTWELL CBO 10/10/12	6.510	846,000
210,000	CLEAR CHANNEL COMM 6.875% 2018	6.875	184,422
400,000	CNF INC SR DEB 6.7% 05/01/2034	6.700	370,552
200,000	CONAGRA FOODS INC	7.000	208,340
290,000	CONAGRA FOODS INC 5.819 06/15/2017	5.819	282,295
60,000	CONAGRA FOODS INC 9.75% 2021	9.750	75,389
229,000	CONTINENTAL AIRLINES INC	6.320	229,000
398,000	CONTINENTAL AIRLINES INC	6.503	399,493
158,539	CONTINENTAL AIRLINES INC	7.256	164,881
280,000	CORNING INC NT 7.25% 08/15/2036	7.250	288,621
240,000	FIRST DATA CORPORATION	4.700	230,964
150,000	GLOBAL MARINE INC 7.00% 06/01/2028	7.000	151,302
250,000	GOLDMAN SACHS	5.125	237,560
300,000	GTE SOUTHWEST INC 1ST MTG 8.5%	8.500	350,916
450,000	HARTFORD LIFE GLOBAL FDG TRUST	5.170	422,019
200,000	HJ HEINZ FINANCE	6.750	194,822
300,000	HOME DEPOT INC SR NT 5.875	5.875	267,300
500,000	HUNTINGTON BANKS SUB NTS	6.600	517,440

Investments Section

Par Value	Description	Coupon	Fair Value
2,850,000	HUTCHISON WHAMPOA FINANCIAL	7.450	3,139,560
335,400	JEFFERIES GROUP 6.25 01/15/36	6.250	314,287
350,000	JOHNSON CTLS INC 6.00% 01/15/2036	6.000	329,564
150,000	KNIGHT RIDDER INC 5.75% 2017	5.750	128,355
400,000	KPN NV 8.375% 10/01/2030	8.380	448,524
90,000	KROGER CO 7.50% 04/01/2031	7.500	94,514
130,000	LEHMAN BROS HDLGS FLOAT 05/14	6.470	119,522
1,000,000	LEHMAN BROTHERS HOLDINGS INC	8.800	1,170,740
300,000	LIBERTY MUTUAL INSURANCE	7.875	327,831
400,000	MASCO CORP 6.50% 08/15/2032	6.500	364,108
941,804	MMCAPS FUNDING I LTD/INC	8.030	1,031,276
500,000	MORGAN STANLEY	4.750	466,920
179,000	NEWS AMER HLDGS INC 7.43% 10/01/26	7.430	191,834
400,000	NORTH STREET 2001-3A CTFS	9.135	400,000
100,000	NORTH STREET 2001-3A NOTE FLT	6.415	95,000
350,000	ONEOK PARTNERS LTD 6.65% 10/01/2036	6.650	347,144
591,000	PACIFIC BELL DEB 7.375 07/15/2043	7.375	605,580
165,731	PACIFIC SHORES CDO	7.808	165,159
480,000	PERITUS CDO 8.37% 05/24/2015	8.370	480,000
180,000	PETROLIAM NASIONAL BERHD PETROL 144A	7.625	211,230
280,000	PHELPS DODGE CORP 9.50% 06/01/2031	9.500	361,900
131,550	PLAINS ALL AMERICAN PIPELINE 6.65%	6.650	129,703
1,927,388	PREFERRED CPO	8.946	2,038,425
700,000	PREMAT ACA TRUST SERIES 1	6.640	714,980
262,110	PRINCIPAL LIFE INC FDG FRN	5.651	237,797
1,000,000	PROTECTIVE LIFE CPI+150	4.920	941,140
1,105,578	REG DIVERSIFIED FUNDING SR NOTES	9.250	1,228,595
210,000	RELIANCE STL & ALUM 6.85% 11/15/2036A	6.850	209,185
120,000	ROYAL CARIBBEAN DEBS 7.50% 10/15/27	7.500	114,203
400,000	SAFEWAY INC SR DEB 7.45 09/15/2027	7.450	411,268
200,000	SARA LEE CORP	6.130	178,920
500,000	SECURITY BENEFIT	8.750	573,545
1,000,000	SECURITY MUTUAL LIFE NEW YORK	9.375	1,237,970
85,530	SERVICEMASTER COMPANY 7.10% 03/01/18	7.100	74,158
400,000	SOUTHERN COPPER CORP NT 7.50 07/27/35	7.500	429,416
400,000	SPRINT CAPITAL CORP 8.75% 03/15/2032	8.750	449,252
400,000	TECK COMINCO LTD 6.125% 2035	6.125	369,868
300,000	TELECOM ITALIA CAP GTD SR NT	7.200	308,418
250,000	TEVA PHARMACEUTICAL 6.150%	6.150	233,695
300,000	TIME WARNER ENT DEBS 2023	8.375	344,382
200,000	TOYOTA MTR CREDIT FLTR	4.248	190,132
400,000	TRAINER WORTHAM FIRST REP CBO	7.257	255,157
420,000	TRANSOCEAN SEDCO FOREX 7.375 04/15/18	7.375	451,962
150,000	TRIBUNE COMPANY 6.61% 2027	6.610	105,882
1,000,000	UNION CENTRAL LIFE	8.200	1,069,280

Par Value	Description	Coupon	Fair Value
150,000	UNITED UTILITIES	4.550	130,148
200,000	UPM-KYMMENE CORP 7.45% 2027	7.450	204,568
270,000	US CELLULAR CORP	6.700	244,353
60,000	WESTERN UNION CO 6.20% 11/17/2036	6.200	57,421
582,000	WESTINGHOUSE ELECTRIC	7.875	594,478
300,000	WESTVACO CORP 8.20 01/15/30	8.200	317,397
750,000	WYETH	6.450	773,130
37,676,470	TOTAL CORPORATE BONDS		39,395,288
72,020,787	BOND PORTFOLIO TOTALS		74,638,829

BONDS ACQUIRED
JULY 1, 2006 THROUGH JUNE 30, 2007
FEDERAL AGENCY OBLIGATIONS

Description	Purchase Price	Par Value	Principal	Accrued Interest	Total Amount
FED HM LN MTG 5.0 6/18/18	91.59	73,000	66,863	375	67,239
FED HM LN MTG 6.25 4/7/21	98.50	150,000	147,750	2,813	150,563
FED HM LN MTG 5.00% 02/15/2025	92.75	200,000	185,500	111	185,611
FED HOME LN 6.00 11/01/2036 3128N5R76	100.81	342,793	345,579	628	346,207
FED HOME LN 6.00 11/01/2036 3128N0CE8	100.81	313,516	316,063	575	316,638
FED HOME LN MTG 6.50% 10/01/2036	101.69	496,513	504,892	2,689	507,581
FED HOME LOAN MTG CORP PARTN	101.69	282,400	287,166	561	287,726
FED NATL MTG ASSN 6.50% 11/01/2036	101.80	1,200,000	1,221,563	2,817	1,224,379
FEDERAL FARM CR 5.85% 05/16/2017	98.50	200,000	197,000	1,495	198,495
FEDERAL HOME LN 6.00% 12/01/2036	100.22	189,365	189,779	915	190,695
FEDERAL HOME LN 6.50 10/01/36	101.88	431,760	439,855	858	440,713
FEDERAL HOME LN BKS 5.33% 7/23/18	94.35	400,000	377,400	651	378,051
FEDERAL HOME LN MTG 6.00% 01/26/2022	98.88	160,000	158,200	3,440	161,640
FEDERAL HOME LN MTG 6.50% 04/01/2037	101.19	192,096	194,377	139	194,516
FEDERAL HOME LOAN BANK 5.125% 7/10/2023	89.38	120,000	107,250	34	107,284
FEDERAL NATL MTG ASSN 6.00% 10/01/36	100.81	1,388,929	1,400,214	2,546	1,402,761
FEDERAL NATL MTG ASSN 6.50% 10/01/36	101.50	297,715	302,180	1,559	303,739
FHR 3172 PC	99.50	400,000	398,000	733	398,733
FNR 2006-60 PC	-	-	-	725	725
FREDDIE MAC 5.00% 12/14/2018	99.53	202,000	201,059	-	201,059
GNR 2006-41 VB 6.00% 03/20/24	101.84	300,000	305,531	750	306,281
TOTAL FED AGENCY OBLIG ACQUIRED		7,340,088	7,346,222	24,415	7,370,637

CORPORATE BONDS

Description	Purchase Price	Par Value	Principal	Accrued Interest	Total Amount
ACAABS 2006-1 A-3L LTD	78.88	99,698	78,637	1,107	79,744
AGRIUM INC DEB 7.125 5/23/36	100.60	61,500	61,869	657	62,526
AGRIUM INC DEB 7.125 5/23/36	104.00	220,000	228,800	4,224	233,024

Investments Section

Description	Purchase Price	Par Value	Principal	Accrued Interest	Total Amount
ALCOA INC NT 5.95% 02/01/2037	95.53	120,000	114,641	2,202	116,842
ALLTEL CORP 7.875% 07/01/2032	101.13	80,000	80,900	2,398	83,298
ALLTEL CORP 7.875% 07/01/2032	111.24	300,000	333,705	8,006	341,711
ANADARKO FINANCE SR NT	111.25	150,000	166,875	4,781	171,656
CHARTWELL CBO 10/10/12	94.38	300,000	283,125	6,215	289,340
CNF INC SR DEB 6.7% 05/01/2034	97.50	400,000	390,000	8,934	398,934
CONAGRA FOODS 5.819% 6/15/2017	96.69	290,000	280,398	-	280,398
CONAGRA FOODS INC 5.819 06/15/2017	96.82	290,000	280,789	-	280,789
CORNING INC NT 7.25% 08/15/2036	104.95	280,000	293,860	6,146	300,006
GLOBAL MARINE INC 7.00% 06/01/2028	105.15	150,000	157,730	4,258	161,988
HOME DEPOT INC SR NT 5.875	94.50	150,000	141,744	3,966	145,710
HOME DEPOT INC SR NT 5.875	96.10	150,000	144,150	2,570	146,720
JEFFERIES GROUP 6.25 01/15/36	97.27	335,400	326,244	5,008	331,251
JOHNSON CTLS INC 6.00% 01/15/2036	95.53	350,000	334,355	5,833	340,188
KPN NV 8.375% 10/01/2030	114.85	400,000	459,400	14,424	473,824
KROGER CO 7.50% 04/01/2031	107.50	90,000	96,750	225	96,975
MASCO CORP 6.50% 08/15/2032	97.80	400,000	391,200	1,517	392,717
NEWS AMER HLDGS INC 7.43% 10/01/26	106.86	179,000	191,279	5,542	196,822
ONEOK PARTNERS LTD 6.65% 10/01/2036	100.75	350,000	352,625	1,940	354,565
PACIFIC BELL DEB 7.375 07/15/2043	105.85	285,000	301,673	4,262	305,935
PACIFIC BELL DEB 7.375 07/15/2043	105.78	306,000	323,687	6,582	330,269
PERITUS CDO 8.37% 05/24/2015	101.50	480,000	487,200	5,134	492,334
PHELPS DODGE CORP 9.50% 06/01/2031	124.30	280,000	348,040	369	348,409
PLAINS ALL AMERICAN PIPELINE 6.65%	102.95	131,550	135,431	4,034	139,465
RELIANCE STL & ALUM 6.85% 11/15/2036	102.35	210,000	214,935	599	215,534
RELIANCE STL & ALUM 6.85% 11/15/2036A	102.32	210,000	214,882	-	214,882
ROYAL CARIBBEAN DEBS 7.50% 10/15/27	99.00	120,000	118,800	825	119,625
SAFEWAY INC SR DEB 7.45 09/15/2027	105.00	400,000	420,000	13,742	433,742
SERVICEMASTER COMPANY 7.10% 03/01/18	89.63	85,530	76,656	877	77,533
SOUTHERN COPPER CORP NT 7.50 07/27/35	103.60	400,000	414,400	2,751	417,151
SPRINT CAPITAL CORP 8.75% 03/15/2032	122.38	400,000	489,500	16,626	506,126
TECK COMINCO LTD 6.125% 2035	95.00	400,000	379,984	11,026	391,010
TELECOM ITALIA CAP GTD SR NT	103.05	300,000	309,150	3,840	312,990
TEVA PHARMACEUTICAL 6.150%	90.45	250,000	226,118	7,517	233,634
TRANSOCEAN SEDCO FOREX 7.375 04/15/18	106.95	120,000	128,340	1,549	129,889
TRANSOCEAN SEDCO FOREX 7.375 04/15/18	110.83	300,000	332,475	4,118	336,593
WESTERN UNION CO 6.20% 11/17/2036	97.00	60,000	58,200	1,540	59,740
WESTVACO CORP 8.20 01/15/30	112.50	300,000	337,500	5,877	343,377
TOTAL CORPORATE BONDS ACQUIRED		10,183,678	10,506,046	181,220	10,687,266

U.S. TREASURY OBLIGATIONS

Description	Purchase Price	Par Value	Principal	Accrued Interest	Total Amount
U.S. TREASURY BDS 2.00% 01/15/2026	97.72	150,000	146,575	918	147,494
U.S. TREASURY BONDS 4.50% 02/15/2036	92.11	200,000	184,219	2,561	186,780
U.S. TREASURY NOTE 4.875% 06/30/2009	100.03	200,000	200,055	53	200,108
U.S. TREASURY NTS 4.50% 04/30/2009	99.39	200,000	198,781	709	199,490
U.S. TREASURY NTS 4.50% 05/15/2017	97.25	200,000	194,500	342	194,842
U.S. TREASURY NTS 4.875% 05/31/2009	99.86	320,000	319,550	213	319,763
U.S. TREASURY NTS INFL IX N/B	101.32	150,000	151,975	363	152,337
U.S. TREASURY NTS TIPS 2.00% 04/15/2012	98.16	200,000	196,316	710	197,026
TOTAL U.S. TREASURY OBLIG ACQUIRED		1,620,000	1,591,971	5,870	1,597,841
TOTAL BONDS ACQUIRED		19,143,766	19,444,239	211,505	19,655,744

BONDS SOLD

JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Coupon	Par Value	Sale Price	Accrued Interest	Amortized Cost	Gain or (Loss)
FEDERAL AGENCY OBLIGATIONS						
FED HOME LN 6.00 11/01/2036 3128N5R76	6.00	25,263	99.16	-	25,050	-
FED HOME LN 6.00 11/01/2036 3128N0CE8	6.00	19,941	99.17	-	19,775	-
FED HOME LN MTG 6.50% 10/01/2036	6.50	7,551	98.31	-	7,423	-
FED HOME LOAN MTG CORP PARTN	6.50	98	98.33	-	96	-
FED NATL MTG ASSN 6.50% 11/01/2036	6.50	267,155	98.20	-	262,334	-
FEDERAL HOME LN 6.00% 12/01/2036	6.00	2,270	99.78	-	2,265	-
FEDERAL HOME LN 6.50 10/01/36	6.50	36,543	98.02	-	35,818	-
FEDERAL NATL MTG ASSN 6.00% 10/01/36	6.00	190,419	99.21	-	188,921	-
FEDERAL NATL MTG ASSN 6.50% 10/01/36	6.50	49,386	98.53	-	48,659	-
FNMA 4.40 12/25/12	4.40	50,198	99.71	-	50,054	-
FNMA 4.45 08/25/12	4.45	123,200	99.68	-	122,801	-
FNMA FNR 2003-42 EP	4.00	111,840	98.39	-	110,040	-
FNMA FNR 2005-45 BG	4.50	51,525	97.24	-	50,101	-
FREDDIE MAC 5.250 11/05/2012	5.25	200,000	100.62	-	201,329	(88)
GNMA Pool Subtotal		632,728		-	619,938	-
TOTAL FEDERAL AGENCY OBLIGATIONS		1,768,118		-	1,744,603	(88)

CORPORATE BONDS

ACA ABS 2006-1 A-3L LTD	6.89	57	78.93	-	45	-
ALBERTSON'S INC 7.25% 2013	7.25	175,000	103.00	3,560	168,050	12,200
AUTOZONE INC 5.50% 2015	5.50	350,000	97.75	7,058	333,560	8,565
BAYER HYPO-VEREINSBANK	8.74	2,000,000	124.87	55,360	1,709,786	787,654
CBO HOLDINGS III LTD.	7.00	11,579	94.80	-	10,977	-
CBO HOLDINGS SPIRIT 2004-3A	6.50	53,453	99.25	-	53,050	-
CONAGRA FOODS 5.819% 6/15/2017	5.82	290,000	96.82	-	280,789	-

Investments Section

Description	Coupon	Par Value	Sale Price	Accrued Interest	Amortized Cost	Gain or (Loss)
CONAGRA FOODS INC 9.75% 2021	9.75	290,000	131.48	-	368,425	12,870
CONTINENTAL AIRLINES INC	7.26	12,760	95.90	-	12,237	-
CONTINENTAL AIRLINES INC	7.92	161,000	104.75	5,666	164,548	4,099
FIRST DATA CORPORATION	4.70	160,000	98.54	1,922	151,443	6,221
FIRST HAWAIIAN CAPITAL TRUST	8.34	1,000,000	105.50	19,931	1,044,076	10,924
FORD MOTOR CO	6.63	250,000	71.38	6,762	192,999	(14,561)
FORD MOTOR COMPANY	9.50	740,000	90.00	25,777	739,842	(73,842)
FORD MTR CR CO GLOBAL NT	5.70	600,000	99.81	-	598,875	-
GLENCORE FUNDING LLC GTD NT	6.00	120,000	97.70	2,340	114,215	3,025
JPM CAPITAL TRUST I	7.54	400,000	103.77	5,948	425,047	(9,967)
JPM CAPITAL TRUST II	7.95	1,000,000	103.98	4,196	1,033,201	6,549
LIBERTY MUTUAL INSURANCE	7.88	300,000	115.36	1,181	285,632	60,448
MMCAPS FUNDING I LTD/INC	8.03	63,392	88.51	-	56,110	-
NORTH STREET 2001-3A NOTE FLT	6.42	100,000	92.50	883	88,668	3,832
PREFERRED CPO	8.95	72,612	96.10	-	69,781	-
RELiance STL & ALUM 6.85% 11/15/2036	6.85	210,000	102.32	-	214,882	-
USF&G CAPITAL II, SERIES B	8.47	1,000,000	104.75	11,998	1,078,840	(31,340)
WEYERHAUSER CO DEBS	7.95	200,000	108.58	3,622	223,834	(6,684)
WYETH	6.45	750,000	101.35	23,516	718,697	41,428
ZAIS INVESTMENT GRADE LTD	6.66	750,000	100.00	-	541,584	208,416
ZURICH CAPITAL TRUST I	8.38	1,000,000	105.05	22,103	1,011,380	39,120
TOTAL CORPORATE BONDS		12,059,851		201,821	11,690,573	1,068,957
TOTAL BONDS SOLD		13,827,969		201,821	13,435,176	1,068,869

CORPORATE NOTE PORTFOLIO JUNE 30, 2007

Date Acquired	Description	Interest Rate	Maturity Date	Cost	Amount of Interest	Maturity Value
06/18/2007	ADVANTAGE ASSET	5.32	07/16/2007	557,683	2,317	560,000
06/13/2007	BAVARIA TRR CORPORATION	5.32	07/12/2007	423,179	1,821	425,000
06/19/2007	CENTRESTAR CAPITAL I	5.602	07/02/2007	248,385	503	248,888
06/12/2007	DAVENPORT CDO I	5.35	07/06/2007	840,990	3,010	844,000
06/21/2007	EBURY FINANCE	5.35	07/05/2007	249,480	520	250,000
05/21/2007	MAXIMILIAN CAPITAL CORP	5.28	07/09/2007	297,844	2,156	300,000
06/21/2007	MORRIGAN TRR FUNDING	5.35	07/05/2007	1,516,838	3,162	1,520,000
06/22/2007	MORRIGAN TRR FUNDING	5.36	07/05/2007	998,064	1,936	1,000,000
06/18/2007	MORRIGAN TRR FUNDING	5.35	07/06/2007	2,991,975	8,025	3,000,000
06/19/2007	RAFFLES PLACE	5.33	07/27/2007	1,939,029	10,971	1,950,000
06/11/2007	RHINELAND FUNDING	5.33	07/03/2007	747,557	2,443	750,000
06/12/2007	TSL (USA) INC	5.34	07/10/2007	777,756	3,244	781,000
TOTAL CORPORATE NOTES				11,588,779	40,109	11,628,888

ALTERNATIVE INVESTMENTS PORTFOLIO

JUNE 30, 2007

Description	Cost
Beazer Homes Roy's Place	-
Beazer Morning Sun Farms	10,535
Beazer Verrado	5,807
Savannah Estates	-
Tortosa	-
Roy's Place Phase 2 - Member Capital	49,819
Roy's Place Phase 2 - Mez Loan	146,141
Sossaman Estates - Member Capital	40,177
Sossaman Estates - Mez Loan	119,617
DTR10 Perimeter Old GE New Parking Ofc	104,120
Peoria Town Center DTD dev7	364,420
Power Marketplace I	78,090
Power Marketplace II	52,060
Skyline Ranch Marketplace	208,240
Trailside Point	27,071
DTD Devco 5 Township Square	(53,485)
DTR1 - Skyline Ranch Marketplace	175,360.
DTR1 Perimeter Ctr (Old GE,Centex)	66,970
DTR10 Perimeter Old GE New Parking Ofc	175,360
Hassayampa	140,288
Hassayampa	70,144
Peoria Town Center DTD dev7	131,520
Power Marketplace I	65,760
Power Marketplace II	113,984
Tierra Verde (Fairways)	241,120
Working Capital	3,589
Colgate Willow Springs	327,962
Conservation Forestry	582,360
DAG IIA Co-Investment	274,000
DAG III Co-Investment	24,660
DAG III LP Direct	82,063
DAG VENTURES II-QP, L.P.	215,875
MESIROW CAPITAL PARTNERS IX	567,853
MidOcean Partners III Direct	652,639
PEBBLECREEK PROPERTIES	10,329
PENINSULA EQUITY PARTNERS	40,812
PROSPECTOR EQUITY CAPITAL	169,334
VALLEY VENTURES III	1,089,354
Valley Ventures III Annex Fund	24,660
WHISPERING CANYON	3,480
OWH Berkana Development	4,384
12th St & Bell Road	86,674
27th Ave & Georgia	35,031

Investments Section

Description	Cost
30th Avenue & Colter	82,295
32nd St & Van Buren	237,368
44th Ave & Northern	28,484
67th Avenue & Greenway East	68,469
OWH Berkana Holdings, LLC	4,384
CIMARRON (Pivotal Debt)	1,185,937
Colorado (Pivotal Debt)	676,780
Colorado II (Pivotal Debt)	364,420
SANDIA (Pivotal Debt)	411,436
Scottsdale 123, L.L.C.	24,660
WORKING CAPITAL (Pivotal Debt)	2,608
Colorado	517,860
NXTV,L.L.C.	886,077
PIVOTAL CIMARRON, LLC	937,420
PIVOTAL SANDIA, LLC	389,628
PIVOTAL SCOTTSDALE 123, LLC	76,621
PIVOTAL SPA I, LLC	707,697
EQUITY PARTNERSHIP (Nest Featherings)	47,152
TOTAL ALTERNATIVE INVESTMENT PORTFOLIO	13,225,489

ALTERNATIVE INVESTMENTS ACQUIRED

JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Cost
12th St & Bell Road	15,731
27th Ave & Georgia	19,050
29th Ave & Camelback	4,609
30th Avenue & Colter	14,520
32nd St & Van Buren	17,770
44th Ave & Northern	4,507
67th Avenue & Greenway East	6,749
Cibola Vista (Engle)	6,055
CIMARRON (Pivotal Debt)	179,607
Colgate Willow Springs	327,962
Colorado	369,900
Colorado (Pivotal Debt)	52,060
Conservation Forestry	582,360
DAG IIA Co-Investment	274,000
DAG III Co-Investment	24,660
DAG III LP Direct	82,063
DAG VENTURES II-QP, L.P.	215,875
DTR10 Perimeter Old GE New Parking Ofc	175,360

Description	Cost
DTR10 Perimeter Old GE New Parking Ofc	104,120
Loop 101 State Land	61,223
Loop 101 State Land Debt	72,702
MESIROW CAPITAL PARTNERS IX	579,890
MidOcean Partners III Direct	654,256
NXTV,L.L.C.	29,592
PENINSULA EQUITY PARTNERS	40,812
PIVOTAL CIMARRON, LLC	345,240
Pivotal Fountain Hills	568,660
PIVOTAL SANDIA, LLC	69,048
Power Marketplace II	70,144
PROSPECTOR EQUITY CAPITAL	20,367
Roy's Place Phase 2 - Member Capital	54,776
Roy's Place Phase 2 - Mez Loan	153,987
SANDIA (Pivotal Debt)	203,034
Sossaman Estates - Mez Loan	11,219
VALLEY VENTURES III	60,253
Valley Ventures III Annex Fund	24,660
WHISPERING CANYON	32,281
TOTAL ALTERNATIVE INVESTMENTS ACQUIRED	5,529,100

ALTERNATIVE INVESTMENTS SOLD

JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Cost	Capital Gains (Loss)
Beazer Homes Roy's Place	45,718	-
Beazer Morning Sun Farms	8,494	-
Beazer Verrado	3,014	-
CENTURY PLAZA HOTEL (CPH I, LLC)	-	220,257
Cibola Vista (Engle)	15,893	-
Cibola Vista (Lennar)	5,002	2,480
CIMARRON (Pivotal Debt)	-	-
Colorado (Pivotal Debt)	-	-
Colorado II (Pivotal Debt)	-	-
Copper Creek	-	-
Cortessa	-	17,818
Curtis	17,958	3,157
DTD Devco 5 Township Square	53,485	4,545
DTR1 Perimeter Ctr (Old GE,Centex)	57,389	133,907
EQUITY PARTNERSHIP (Nest Featherings)	3,139	-
Evans Ranch	19,430	1,415
Fairways Corporate Center	577,866	-
GRAND INN	-	3
GRAND INN - NOTE	35,760	-
HARBOR BAY CAMPUS	-	8,396
Highland Groves	2,552	2,955

Investments Section

Description	Cost	Capital Gains (Loss)
La Mirada	-	228,307
Lennar Phoenix	53,265	14,418
Loop 101 State Land	61,223	-
Loop 101 State Land Debt	72,702	-
Meritage-Verrado	-	19,388
MESIROW CAPITAL PARTNERS IX	12,037	-
MidOcean Partners III Direct	1,617	-
NXTV, LLC (Pivotal Debt)	-	-
PEBBLECREEK PROPERTIES	-	27,400
Perimeter DHL (224)	350,720	-
Perimeter Ctr (Old GE/ DHL224/ Centex)	760,076	-
Pivotal Fountain Hills	568,660	-
Power Ranch	20,975	-
Rio Paseo	-	-
Roy's Place Phase 2 - Member Capital	4,957	-
Roy's Place Phase 2 - Mez Loan	7,846	-
SANDIA (Pivotal Debt)	-	-
Santan Vista	-	26,434
Savannah Estates	32,702	548
Seville Office	-	103,860
Seville Retail	-	242,341
Sossaman Estates - Member Capital	-	-
Sossaman Estates - Mez Loan	22,367	-
TALLEY PROPERTIES	-	-
TOREEON GC	99,110	32,606
Torreon	181,936	60,554
Tortosa	38,545	-
Townley Square	12,950	16,503
Westpark	42,927	4,135
WHISPERING CANYON	123,175	-
Working Capital	795	-
TOTAL ALTERNATIVE INVESTMENTS SOLD	3,314,282	1,171,426



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October 31, 2007

The Fund Manager
Arizona Elected Officials' Retirement Plan
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016-4416

Attention: James Hacking, Administrator

The purpose of the annual actuarial valuation of the Arizona Elected Officials' Retirement Plan is to determine the liabilities and funding requirements for the participating groups. We certify that the June 30, 2007 annual actuarial valuations were made in accordance with recognized actuarial methods.

Data for the annual valuations was furnished by the Administrator and was checked by us for internal completeness and year-to-year consistency, but was not otherwise audited. The actuary prepared all of the schedules in the Actuarial Section and the Schedule of Funding Progress in the Financial Section of the Comprehensive Annual Financial Report.

The actuarial assumptions were adopted by the Fund Manager based upon the recommendations of the actuary and the results of experience studies, the most recent of which covered the 5 year period ended June 30, 2006. The assumptions and methods conform to the parameters established in Governmental Accounting Standards Board Statement 25. Actuarial gains (losses) were amortized as level percents of payroll over 29 years.

The funding value of assets is a smoothed market value which spreads differences between the actual and assumed investment return over a seven year period.

On the basis of the June 30, 2007 valuation, it is our opinion that the liabilities of the Retirement Plan are being funded as incurred in accordance with sound actuarial principles.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Sandra W. Rodwan'.

Sandra W. Rodwan
Member, American Academy of Actuaries



Elected Officials' Retirement Plan

Actuarial Balance Sheet June 30, 2007

Actuarial Assets

Accrued Assets		
Member accumulated contributions	\$39,760,373	
Employer and benefit payment reserves	259,461,344	
Funding value adjustment	68,322,782	
Total accrued assets*	<u> </u>	\$367,544,499
Prospective assets (computed value)		
Member contributions	32,142,890	
Employer normal costs	78,263,781	
Employer unfunded actuarial accrued liability	114,582,583	
Total prospective assets	<u> </u>	<u>224,989,254</u>
Total Actuarial Assets		<u><u>\$592,533,753</u></u>

* Includes \$30,827,881 reserve for payment of ad-hoc pension increases. The net funding value of assets is \$336,716,618.

Actuarial Present Values (Liability)

Pensions in payment status		
Service pensions	\$228,044,885	
Disability pensions	9,472,689	
Survivor pensions	31,773,258	
Health insurance	7,987,202	
Total benefit values	<u> </u>	277,278,034
Prospective pension payments (future retirements)		275,831,056
Prospective health insurance payments (future retirements)		8,026,839
Prospective refunds of member contributions		569,943
Reserve for future pension increases		<u>30,827,881</u>
Total Actuarial Present Values (Liability)		<u><u>\$592,533,753</u></u>

Actuarial Section

Summary of Valuation Assumptions

Economic Assumptions

Interest Rate: 8.50% (net of expenses)

Salary Increases: 5.00% for inflation.

Demographic Assumptions

Retiree Non-Disability Mortality rates: RP 2000 Healthy Annuitant Mortality Table, male ages set back 2 years and female ages set back 1 year (first used for June 30, 2007 valuation).

Active Member Non-Disability Mortality Rates: RP 2000 Health Annuitant Mortality Table, male ages set back 2 years and female ages set back 1 year (first used for June 30, 2007 valuation)

Termination of Employment: Service-related rates.

Disability Rates: There were no disability rates assumed.

The sample rates are below.

Retirement Rates: Service-related rates based on the following schedule:

Active members are eligible to retire early at any age with 5 years of service, or normally at any age with 20 years of service, at 62 with 10 years of service, or age 65 with 5 years of service. Pensions were assumed to be decreased 3/12 of 1% for each month the age at early retirement precedes normal retirement age, with a maximum reduction of 30%.

These rates adopted by the Fund Manager, as recommended by the Plan's actuary, were first used for the June 30, 2007 valuation.

Actuarial Method Used for the Valuation

Normal Cost. Normal cost and the actuarial present values between service rendered before and after the valuation date were determined using the projected unit credit actuarial cost method.

Actuarial Accrued Liability. The actuarial accrued liability allocated to service rendered prior to the valuation date, including experience gains and losses, was computed using the assumptions summarized in this report. Accrued valuation assets were subtracted from the computed actuarial accrued liability. Any unfunded amount was amortized as level percent of payroll over a closed period of 29 years.

Active member payroll was assumed to increase 5.00% annually for the purpose of computing the amortization payment as a level percent of payroll.

Single Life Retirement Values

Sample Ages	Retirees		Active Members		Retirees		Active Members	
	Present Value of \$100 Monthly For Life		Present Value of \$100 Monthly For Life		Future Life Expectancy (Years)		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women	Men	Women
20	\$14,536	\$14,589	\$14,569	\$14,610	61.00	63.51	63.97	67.07
25	14,450	14,516	14,500	14,548	56.10	58.57	59.08	62.13
30	14,324	14,408	14,399	14,457	51.21	53.63	54.12	57.20
35	14,140	14,254	14,253	14,328	46.32	48.71	49.31	52.28
40	13,890	14,039	14,060	14,150	41.49	43.83	44.49	47.41
45	13,537	13,738	13,795	13,906	36.70	38.99	39.71	42.59
50	13,040	13,320	13,430	13,575	31.96	34.22	34.99	37.83
55	12,474	12,778	12,929	13,122	27.55	29.59	30.34	33.15
60	11,765	12,077	12,239	12,510	23.31	25.14	25.77	28.58
65	10,823	11,213	11,316	11,689	19.19	20.93	21.35	24.15
70	9,681	10,170	10,072	10,560	15.35	17.02	17.07	19.82
75	8,355	8,949	8,569	9,332	11.88	13.44	13.25	16.18
80	6,913	7,602	7,303	8,277	8.86	10.30	10.52	13.50
85	5,457	6,176	6,280	7,496	6.36	7.61	8.70	11.78
90	4,152	4,847	6,084	7,403	4.48	5.52	8.30	11.30

Disability Retiree Mortality Rates: Non-disability rates set forward 5 years.

Sample Ages	Years of Service	Percent of Active Members	
		Separating Within the Year	Disabled Within the Year
All	0	6.0%	(all years of service)
	1	6.0	
	2	6.0	
	3	6.0	
	4	6.0	
	5	6.0	
	6	6.0	
	7	6.0	
	8	6.0	
	9	2.0	
	10 and over	2.0	
25	All years		0.00%
30			0.00
35			0.00
40			0.00
45			0.00
50			0.00
55			0.00
60			0.00

PERCENT OF ACTIVE MEMBERS RETIRING WITHIN YEAR

Following Attainment of Indicated Years of Service

Years of Service	Percent of Active Members Retiring During Next Year
5	4%
6	4
7	4
8	8
9	8
10	8
11	8
12	15
13	5
14	5
15	5
16	15
17	5
18	6
19	7
20	40
21	30
22	20
23	15
24	15
25	45
26	45
27	15
28	15
29	15
30	100

SOLVENCY TEST

A short term solvency test is one means of checking a plan's progress under its funding program. In a short term solvency test, the plan's present assets (cash and investments) are compared with:

1. Active member contributions on deposit;
2. The liabilities for future benefits to present retired lives;
3. The liabilities for service already rendered by active members.

In a plan that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the plan has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare. All amounts presented are in thousands.

Aggregate Accrued Liabilities for					Portion of Accrued Liabilities		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets Available for Benefits	Covered by Net Assets Available for Benefits		
					(1)	(2)	(3)
6-30-98	\$20,703	\$91,187	\$87,772	\$241,885	100.0%	100.0%	100.0%
6-30-99	\$21,506	\$109,582	\$96,013	\$283,337	100.0%	100.0%	100.0%
6-30-00	\$24,038	\$126,895	\$102,545	\$329,777	100.0%	100.0%	100.0%
6-30-01	\$24,061	\$151,590	\$75,336	\$355,768	100.0%	100.0%	100.0%
6-30-02	\$25,854	\$174,580	\$79,513	\$351,349	100.0%	100.0%	100.0%
6-30-03	\$27,466	\$192,979	\$77,446	\$328,811	100.0%	100.0%	100.0%
6-30-04	\$29,226	\$214,647	\$85,048	\$343,376	100.0%	100.0%	100.0%
6-30-05	\$30,671	\$240,470	\$89,617	\$344,604	100.0%	100.0%	82.0%
6-30-06	\$36,639	\$248,357	\$106,407	\$351,701	100.0%	100.0%	62.3%
6-30-07	\$39,760	\$277,278	\$134,261	\$336,717	100.0%	100.0%	14.7%

See Schedule of Funding Progress in the Required Supplementary Information.

Actuarial Section
Summary of Active Member Data

AGE AND SERVICE DISTRIBUTION

Attained Age	Service							No.	Payroll
	0-4	5-9	10-14	15-19	20-24	25-29	Over 30		
25-29	4	1						5	\$263,091
30-34	13	2	1					16	524,644
35-39	26	8	1					35	1,625,549
40-44	39	16	7	1				63	4,963,432
45-49	55	37	21	5	1			119	9,531,557
50-54	55	54	43	13	3	1		169	14,584,073
55-59	56	49	41	27	12	2	1	188	15,800,008
60-64	33	37	29	29	6	2	1	137	10,391,882
65-69	15	18	12	2	3	3		53	2,506,695
70-74	4	8	2	2		2	1	19	663,338
75-79		1	3	1	1		1	7	344,646
80-84			1	1				2	108,937
Totals	300	231	161	81	26	10	4	813	\$61,307,852

COMPARATIVE SCHEDULE

FYE 06/30	Active members	Payroll (+000)	Avg. Salary	Aggregate Employer rate
1998	713	\$40,441	\$56,719	12.64%
1999	709	\$43,087	\$60,771	8.90%
2000	720	\$45,382	\$63,030	10.22%
2001	737	\$48,669	\$66,037	8.94%
2002	738	\$48,729	\$66,029	6.97%
2003	751	\$49,351	\$65,714	7.55%
2004	767	\$50,624	\$66,003	13.49%
2005	781	\$53,450	\$68,436	14.54%
2006	800	\$54,696	\$68,370	20.54%
2007	813	\$61,308	\$75,409	18.55%
2008				20.21%
2009				28.00%

Actuarial Section

Summary of Retirants and Inactive Members

RETIRANTS AND BENEFICIARIES

Valuation Date	Number Removed From Roles	Number Added to Roles	Totals	Annual Allowances Removed From Roles*	Annual Allow- ances Added to Roles*	Annual Pen- sions	Percent Increase	Average Pension
6/30/98	20	37	513			\$11,143,500	6.7%	\$21,722
6/30/99	20	54	547			\$13,122,722	17.8%	\$23,990
6/30/00	21	63	589			\$15,096,774	15.0%	\$25,631
6/30/01	26	84	647			\$17,729,482	17.4%	\$27,403
6/30/02	26	38	659			\$19,606,416	10.6%	\$29,752
6/30/03	15	65	709			\$22,308,359	13.8%	\$31,465
6/30/04	31	52	730	\$936,369	\$2,482,196	\$23,854,186	6.9%	\$32,677
6/30/05	33	72	769	\$817,929	\$3,076,044	\$26,112,301	9.5%	\$33,956
6/30/06	20	48	797	\$1,188,444	\$2,482,196	\$28,044,340	7.4%	\$35,187
6/30/07	29	58	826	\$842,516	\$3,178,426	\$30,380,250	8.3%	\$36,780

*Effective June 30, 2004, started reporting the annual allowances removed from roles and annual allowances added to roles. This information was not available prior to the effective date.

INACTIVE MEMBERS AGE AND SERVICE DISTRIBUTION

Attained Age	Service						No.
	0-4	5-9	10-14	15-19	20-24	25-29	
25-29	1						1
30-34	3						3
35-39	8	2					10
40-44	6	3	1				10
45-49	16	10	2				28
50-54	9	12	6	2			29
55-59	15	13	7	4			39
60-64	6	11	4	2			23
65-69	4	1		1			6
70-74	2	3					5
75-79		1					1
80-84		1					1
Totals	70	57	20	9			156

SCHEDULE OF EXPERIENCE GAIN/LOSS

Year Ended June 30, 2007

(1) UAAL ^a at start of year	\$39,702,483
(2) Normal cost	13,546,764
(3) Funding method contributions	16,955,955
(4) Interest accrual	3,229,820
(5) Expected UAAL before changes	39,648,224
(6) Change from amendments	None
(7) Change from assumption and method revisions	27,734,802
(8) Expected UAAL after changes	67,383,026
(9) Actual UAAL	114,582,583
(10) Gain(Loss)	(47,199,557)
(11) Percent of AAL ^b	(12.1)%

^a Unfunded Actuarial Accrued Liability

^b Actuarial Accrued Liability at beginning of year.



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CHANGE IN PLAN NET ASSETS
(in thousands)
LAST TEN YEARS ENDED JUNE 30, 2007

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Additions:										
Member Contributions	\$4,090	\$3,811	\$3,617	\$3,499	\$4,356	\$3,596	\$3,544	\$4,164	\$2,970	\$3,295
Employer Contributions ¹	6,931	7,625	3,305	3,363	188	172	647	540	334	210
Court Fees	3,978	3,855	3,793	3,614	3,568	3,485	3,509	3,587	3,607	3,458
Net Investment Gain (Loss)	54,599	24,408	27,407	39,279	16,378	(48,685)	(67,060)	46,967	53,425	54,378
Member Service Purchase	1,957	2,430								
Amounts transferred from Other State Plans	1,190	1,703	3,647	651	1,880	434	270	2,083	48	729
Total Additions	72,745	43,833	41,769	50,406	26,369	(40,999)	(59,090)	57,341	60,384	62,070
Deductions:										
Pension and Insurance Benefits ¹	29,569	27,909	25,746	23,754	21,930	19,529	16,802	14,347	11,992	10,964
Refunds to Terminated Members	128	7	83	117	115	(7)	134	182	169	31
Administrative Expenses	340	248	132	89	72	71	59	60	60	60
Amounts Transferred to Other State Plans	20	11	246	124	207	-	-	-	-	-
Total Deductions	30,056	28,175	26,206	24,084	22,325	19,594	16,995	14,589	12,221	11,055
Net (Decrease) Increase	42,689	15,658	15,562	26,321	4,044	(60,593)	(76,085)	42,752	48,163	51,015
Net Assets Held In Trust										
Beginning of Year - July 1	327,152	311,494	295,932	269,611	265,567	326,159	402,244	359,492	311,329	260,314
Ending of Year - June 30	\$369,841	\$327,152	\$311,494	\$295,932	\$269,611	\$265,567	\$326,159	\$402,244	\$359,492	\$311,329

¹ See Note 7 on Page 41. Amounts include health insurance subsidy contributions and benefits paid.

Principal Participating Employers
Current Year and Nine years ago

Participating Employer	2007			1998		
	Covered Employees	Rank	% of Membership	Covered Employees	Rank	% of Membership
State & Counties	668	1	82.16%	605	1	84.85%
City of Phoenix	9	2	1.11%	9	3	1.26%
City of Yuma	9	2	1.11%	8	4	1.12%
City of Mesa	8	4	0.98%	10	2	1.40%
City of South Tucson	8	4	0.98%	7	5	0.98%
All Others	111		13.65%	74		10.38%
	813		100.00%	713		100.00%

Schedule of Benefit Expenses by Type

Fiscal Year	Normal Benefits	Survivor Benefits	Disability Benefits	Insurance Benefits ¹	Totals
1998	\$8,593,838	\$1,516,198	\$625,855	\$227,988	\$10,963,879
1999	\$9,265,167	\$1,786,989	\$698,545	\$240,953	\$11,991,654
2000	\$10,966,775	\$2,459,882	\$657,755	\$263,084	\$14,347,496
2001	\$13,051,530	\$2,680,089	\$752,464	\$318,219	\$16,802,302
2002	\$14,747,855	\$3,079,725	\$788,587	\$913,120	\$19,529,287
2003	\$16,492,733	\$3,213,764	\$1,052,910	\$1,170,421	\$21,929,828
2004	\$18,094,413	\$3,471,324	\$1,109,342	\$1,078,834	\$23,753,913
2005	\$19,824,610	\$3,671,914	\$1,073,453	\$1,175,740	\$25,745,717
2006	\$21,986,931	\$3,935,206	\$1,083,693	\$903,104	\$27,908,934
2007	\$23,435,322	\$4,231,772	\$1,050,452	\$850,915	\$29,568,462

¹ See Note 7 on Page 41.

Statistical Section

Demographics

Summary of Retired Members and Survivors

FYE 06/30	Service Pension		Disability Pension		Survivor Pension		Total Pensions	
	Number	Average	Number	Average	Number	Average	Number	Average
1998	386	\$22,749	18	\$43,742	109	\$14,451	513	\$21,722
1999	408	\$24,964	16	\$43,342	123	\$18,244	547	\$23,990
2000	444	\$26,548	15	\$42,849	130	\$20,514	589	\$25,631
2001	495	\$28,562	16	\$46,362	136	\$20,951	647	\$27,403
2002	500	\$30,921	18	\$53,263	141	\$22,604	659	\$29,752
2003	546	\$32,552	19	\$57,633	144	\$23,888	709	\$31,465
2004	565	\$33,827	20	\$58,164	145	\$24,680	730	\$32,677
2005	600	\$35,318	18	\$62,493	151	\$25,143	769	\$33,956
2006	615	\$36,994	19	\$58,173	163	\$25,691	797	\$35,187
2007	651	\$38,426	20	\$56,196	155	\$27,362	826	\$36,780

Pension Benefits and Insurance Subsidy by Years of Service

Service	Service		Disability		Survivors		Totals	
	Annual Pensions	Annual Ins Subsidy	Annual Pensions	Annual Ins Subsidy	Annual Pensions	Annual Ins Subsidy	Annual Pensions	Annual Ins Subsidy
Children w Guardians	\$-	\$-	\$-	\$-	\$35,703	\$1,200	\$35,703	\$1,200
0-4	-	-	96,880	2,322	146,778		243,658	2,322
5-9	2,351,709	185,816	29,888	-	503,525	13,422	2,885,122	199,238
10-14	4,856,474	217,290	602,325	23,033	1,175,436	30,567	6,634,235	270,890
15-19	5,153,858	173,675	394,822	18,218	836,093	14,347	6,384,773	206,240
20-24	9,298,791	191,107	-	-	1,144,721	23,268	10,443,512	214,375
25-29	2,769,052	69,147	-	-	371,558	5,839	3,140,610	74,986
30-34	585,409	30,720	-	-	27,228	1,200	612,637	31,920
Totals	25,015,293	\$867,755	\$1,123,915	\$43,573	\$4,241,042	\$89,843	\$30,380,250	\$1,001,171

Summary of Retired Members and Survivors

June 30, 2007

Pensions Being Paid	Number	Annual Pensions	Average Pensions
Retired Members			
Service Pensions	651	\$25,015,293	\$38,426
Disability Pensions	20	1,123,915	56,196
Totals	671	26,139,208	38,956
Survivors			
Spouses	154	4,206,712	27,316
Children with Guardians*	1	34,330	34,330
Totals	155	4,241,042	27,362
Total Pensions Being Paid	826	\$30,380,250	\$36,780
	Average Age	Average Service (Years)	Average Retirement Age
Service	70.0	14.4	61.0
Disability	68.8	11.2	57.9
Spouse Beneficiary	75.1	11.1	58.0

SUMMARY OF BENEFIT INCREASES

Fiscal Year Ended	Excess Yield per Statute	Excess Earnings	Utilized	Excess Earnings Available	Benefit Increase 4% Cap
6/30/98	12.23%	10,870,740	(888,283)	29,761,967	4.00%
6/30/99	8.52%	9,129,468	(3,623,737)	40,481,995	4.00%
6/30/00	4.20%	5,216,866	(4,133,898)	46,908,586	4.00%
6/30/01	0.00%	-	(4,518,604)	34,436,162	4.00%
6/30/02	0.00%	-	(5,801,777)	23,400,088	4.00%
6/30/03	0.00%	-	(6,375,994)	18,591,900	4.00%
6/30/04	6.02%	12,292,877	(5,958,472)	27,718,251	4.00%
6/30/05	0.56%	1,271,696	(8,027,464)	23,611,516	4.00%
6/30/06	0.00%	-	(8,946,622)	16,523,120	4.00%
6/30/07	8.01%	20,886,734	(9,392,556)	30,827,881	4.00%

SUMMARY OF GROWTH OF THE PLAN

Fiscal Year	Total Assets at Book	Realized Earnings from Investments	Assumed Actuarial Yield	Net Effective Yield	Average Employer Cost
1998	\$209,247,828	\$32,818,266	9.00%	18.41%	12.64%
1999	\$258,049,796	\$54,086,027	9.00%	26.15%	8.90%
2000	\$285,234,761	\$31,431,378	9.00%	12.27%	10.22%
2001	\$293,478,357	\$17,402,311	9.00%	6.19%	8.94%
2002	\$288,376,999	\$6,835,146	9.00%	2.37%	6.97%
2003	\$247,792,779	\$(28,220,028)	9.00%	-9.98%	7.55%
2004	\$246,307,539	\$11,508,119	9.00%	4.76%	13.49%
2005	\$253,313,875	\$18,899,017	8.75%	7.85%	14.54%
2006	\$275,729,455	\$31,226,907	8.50%	12.53%	20.54%
2007	\$299,238,103	\$37,306,895	8.50%	13.85%	18.55%

Participating Employers

STATE OF ARIZONA
APACHE COUNTY
COCHISE COUNTY
COCONINO COUNTY
GILA COUNTY
GRAHAM COUNTY
GREENLEE COUNTY
LA PAZ COUNTY
MARICOPA COUNTY
MOHAVE COUNTY
NAVAJO COUNTY
PIMA COUNTY
PINAL COUNTY
SANTA CRUZ COUNTY
YAVAPAI COUNTY
YUMA COUNTY

CITY OF APACHE JUNCTION
CITY OF AVONDALE
CITY OF CHANDLER
CITY OF FLAGSTAFF
CITY OF GLENDALE
CITY OF GLOBE
CITY OF MESA
CITY OF PEORIA
CITY OF PHOENIX
CITY OF SAFFORD
CITY OF SCOTTSDALE
CITY OF SOUTH TUCSON
TOWN OF SAHUARITA
CITY OF TEMPE
CITY OF TOLLESON
CITY OF TUCSON
CITY OF YUMA
TOWN OF GILBERT
CITY OF SURPRISE
TOWN OF MARANA
TOWN OF THATCHER

